EXHIBIT 2
Part 1

COUNTRYWIDE FINANCIAL CORP

4500 PARK GRANADA BLVD
CALABASAS, CA 91302
818. 225.3000

10-Q

10-Q
Filed on 08/11/2008 - Period: 06/30/2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10–Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2008

Or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to
Commission file number: 1–8422

Countrywide Financial Corporation
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**26–2209742** (IRS Employer Identification No.)
4500 Park Granada, Calabasas, California (Address of principal executive offices)	**91302** (Zip Code)

(818) 225–3000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non–accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b–2 of the Exchange Act (check one):

Large accelerated filer ☒ Accelerated filer ☐ Non–accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b–2 of the Exchange Act): Yes ☐ No ☒

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 8, 2008
Common Stock $0.01 par value	1,000

The Registrant meets the conditions set forth in general instructions H(1)(a) and (b) of Form 10–Q and is therefore filing this Form 10–Q with the reduced disclosure format.

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COUNTRYWIDE FINANCIAL CORPORATION

FORM 10–Q

June 30, 2008

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

COUNTRYWIDE FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30, 2008	December 31, 2007
	(Unaudited)	
	(in thousands, except share data)	
ASSETS		
Cash	$ 6,650,317	$ 8,810,399
Mortgage loans held for sale (includes $8,638,178 carried at estimated fair value at June 30, 2008)	11,816,362	11,681,274
Trading securities owned, at estimated fair value	1,193,001	14,504,563
Trading securities pledged as collateral, at estimated fair value	—	6,838,044
Securities purchased under agreements to resell, securities borrowed and federal funds sold	6,649,086	9,640,879
Loans held for investment, net of allowance for loan losses of $5,035,651 and $2,399,491 at June 30, 2008 and December 31, 2007, respectively (includes $46,120 carried at estimated fair value at June 30, 2008)	94,230,990	98,000,713
Investments in other financial instruments, at estimated fair value	18,847,997	25,817,659
Mortgage servicing rights, at estimated fair value	18,402,390	18,958,180
Premises and equipment, net	1,539,200	1,564,438
Other assets	12,747,151	12,550,775
Total assets	$ 172,076,494	$ 208,366,924
LIABILITIES		
Deposit liabilities	$ 62,811,922	$ 60,200,599
Securities sold under agreements to repurchase	3,544,580	18,218,162
Trading securities sold, not yet purchased, at estimated fair value	31,415	3,686,978
Notes payable (includes $1,212,252 carried at estimated fair value at June 30, 2008)	82,335,591	97,227,413
Accounts payable and accrued liabilities	10,651,933	10,194,358
Income taxes payable	2,280,985	4,183,543
Total liabilities	161,656,426	193,711,053
Commitments and contingencies	—	—
SHAREHOLDERS' EQUITY		
Preferred stock, par value $0.05—authorized, 1,500,000 shares; issued and outstanding at June 30, 2008 and December 31, 2007, 20,000 shares of 7.25% Series B non–voting convertible cumulative shares with a total liquidation preference of $2,000,000	1	1
Common stock, par value $0.05—authorized, 1,000,000,000 shares; issued, 583,256,956 shares and 578,881,566 shares at June 30, 2008 and December 31, 2007, respectively; outstanding 583,256,956 shares and 578,434,243 shares at June 30, 2008 and December 31, 2007, respectively	29,163	28,944
Additional paid–in capital	4,223,513	4,155,724
Retained earnings	7,208,574	10,644,511
Accumulated other comprehensive loss	(1,041,183)	(173,309)
Total shareholders' equity	10,420,068	14,655,871
Total liabilities and shareholders' equity	$ 172,076,494	$ 208,366,924

The accompanying notes are an integral part of these consolidated financial statements.

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COUNTRYWIDE FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(Unaudited) (In thousands, except per share data)			
Revenues				
(Loss) gain on sale of loans and securities	$ (126,942)	$ 1,493,458	$ 162,369	$ 2,727,562
Interest income	2,462,546	3,499,644	5,269,105	6,851,626
Interest expense	(1,806,595)	(2,771,648)	(3,881,834)	(5,392,693)
Net interest income	655,951	727,996	1,387,271	1,458,933
Provision for loan losses	(2,330,925)	(292,924)	(3,832,277)	(444,886)
Net interest (expense) income after provision for loan losses	(1,674,974)	435,072	(2,445,006)	1,014,047
Loan servicing fees and other income from mortgage servicing rights and retained interests	1,337,849	1,421,255	2,744,258	2,808,544
Realization of expected cash flows from mortgage servicing rights	(667,652)	(857,125)	(1,421,278)	(1,657,007)
Change in fair value of mortgage servicing rights	1,896,008	1,177,330	435,295	1,231,513
Recovery (impairment) of retained interests	35,280	(268,117)	(705,740)	(697,718)
Servicing Hedge losses	(2,624,321)	(1,373,089)	(619,914)	(1,486,827)
Net loan servicing fees and other income from mortgage servicing rights and retained interests	(22,836)	100,254	432,621	198,505
Net insurance premiums earned	484,766	352,384	973,595	686,561
Realized loss on available for sale investment securities	(467,808)	(4,889)	(491,880)	(3,886)
Other	184,956	172,118	424,337	331,384
Total revenues	(1,622,838)	2,548,397	(943,964)	4,954,173
Expenses				
Compensation	996,848	1,109,016	2,050,833	2,184,424
Occupancy and other office	249,169	269,017	491,948	533,230
Insurance claims	366,469	154,769	722,120	212,074
Advertising and promotion	65,638	79,540	138,898	149,557
Other	514,874	271,357	960,300	509,395
Total expenses	2,192,998	1,883,699	4,364,099	3,588,680
(Loss) earnings before income taxes	(3,815,836)	664,698	(5,308,063)	1,365,493
(Benefit) provision for income taxes	(1,485,737)	179,630	(2,084,911)	446,444
NET (LOSS) EARNINGS	$ (2,330,099)	$ 485,068	$ (3,223,152)	$ 919,049
(Loss) earnings per share				
Basic	$ (4.07)	$ 0.83	$ (5.68)	$ 1.57
Diluted	$ (4.07)	$ 0.81	$ (5.68)	$ 1.53

The accompanying notes are an integral part of these consolidated financial statements.

COUNTRYWIDE FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Convertible Preferred Stock	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
		Shares	Amount				
				(Unaudited)			
			(In thousands, except share data)				
Balance at December 31, 2006	$ —	585,182,298	$ 29,273	$ 2,154,438	$ 12,151,691	$ (17,556)	$ 14,317,846
Remeasurement of income taxes payable upon adoption of FIN 48	—	—	—	—	(12,719)	—	(12,719)
Balance as adjusted, January 1, 2007	—	585,182,298	29,273	2,154,438	12,138,972	(17,556)	14,305,127
Comprehensive income:							
Net earnings for the period	—	—	—	—	919,049	—	919,049
Other comprehensive income (loss), net of tax:							
Net unrealized losses from available-for-sale securities	—	—	—	—	—	(130,123)	(130,123)
Net change in foreign currency translation adjustment	—	—	—	—	—	9,237	9,237
Change in unfunded liability relating to defined benefit plans	—	—	—	—	—	2,214	2,214
Total comprehensive income							800,377
Issuance of common stock pursuant to stock-based compensation	—	9,887,079	502	226,734	—	—	227,236
Excess tax benefit related to stock-based compensation plans	—	—	—	68,348	—	—	68,348
Issuance of common stock, net of treasury stock	—	652,447	33	25,862	—	—	25,895
Repurchase and cancellation of common stock	—	(21,503,512)	(1,075)	(862,481)	—	—	(863,556)
Cash dividends paid—$0.30 per common share	—	—	—	—	(177,532)	—	(177,532)
Balance at June 30, 2007	$ —	574,218,312	$ 28,733	$ 1,612,901	$ 12,880,489	$ (136,228)	$ 14,385,895
Balance at December 31, 2007	$ 1	578,434,243	$ 28,944	$ 4,155,724	$ 10,644,511	$ (173,309)	$ 14,655,871
Cumulative effect of adoption of SFAS 159	—	—	—	—	34,249	(2,197)	32,052
Balance as adjusted, January 1, 2008	1	578,434,243	28,944	4,155,724	10,678,760	(175,506)	14,687,923
Comprehensive income:							
Net loss for the period	—	—	—	—	(3,223,152)	—	(3,223,152)
Other comprehensive (loss), income net of tax:							
Net unrealized losses from available-for-sale securities	—	—	—	—	—	(864,910)	(864,910)
Net change in foreign currency translation adjustment	—	—	—	—	—	(2,410)	(2,410)
Change in unfunded liability relating to defined benefit plans	—	—	—	—	—	1,643	1,643
Total comprehensive loss							(4,088,829)
Issuance of common stock pursuant to stock-based compensation	—	4,253,286	191	68,729	—	—	68,920
Excess tax benefit related to stock-based compensation plans	—	—	—	(4,361)	—	—	(4,361)
Issuance of common stock, net of treasury stock	—	569,427	28	3,421	—	—	3,449
Cash dividends paid—$0.30 per common share	—	—	—	—	(174,534)	—	(174,534)
Cash dividends paid—$3,625 per preferred share	—	—	—	—	(72,500)	—	(72,500)
Balance at June 30, 2008	$ 1	583,256,956	$ 29,163	$ 4,223,513	$ 7,208,574	$ (1,041,183)	$ 10,420,068

The accompanying notes are an integral part of these consolidated financial statements.

COUNTRYWIDE FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(Unaudited) (in thousands)	
Cash flows from operating activities:		
Net (loss) earnings	$ (3,223,152)	$ 919,049
Adjustments to reconcile net (loss) earnings to net cash provided (used) by operating activities:		
Gain on sale of loans and securities	(162,369)	(2,727,562)
Accretion of discount on securities	(172,748)	(260,618)
Interest capitalized on loans	(307,333)	(456,973)
Amortization of deferred premiums, discounts, fees and costs, net	(16,001)	209,442
Accretion of fair value adjustments and discount on notes payable	(24,694)	(29,348)
Change in fair value of hedged notes payable and related interest-rate and foreign-currency swaps	(58,207)	(9,787)
Amortization of deferred fees on time deposits	13,521	11,113
Provision for loan losses	3,832,277	444,886
Changes in MSR value due to realization of expected cash flows from mortgage servicing rights	1,421,278	1,657,007
Change in fair value of mortgage servicing rights	(435,295)	(1,231,513)
Impairment of retained interests and accrual for funding obligation under rapid amortization	729,283	759,529
Servicing Hedge losses	619,914	1,486,827
Write-down of other than temporary impairment on available-for-sale securities	497,963	—
Stock-based compensation expense	56,385	48,353
Depreciation and other amortization	147,849	151,188
Provision for restructuring costs	16,073	—
(Benefit) provision for deferred income taxes	(2,095,292)	836,807
Origination and purchase of loans held for sale	(122,810,313)	(242,781,618)
Proceeds from sale and principal repayments of loans held for sale	120,459,780	236,898,474
Decrease (increase) in trading securities	20,154,728	(1,207,318)
Decrease in other assets	847,619	420,705
(Decrease) increase in trading securities sold, not yet purchased, at fair value	(3,655,563)	731,154
(Decrease) increase in accounts payable and accrued liabilities	(1,282,812)	180,812
Increase (decrease) in income taxes payable	719,942	(473,482)
Net cash provided (used) by operating activities	15,272,833	(4,422,873)
Cash flows from investing activities:		
Decrease in securities purchased under agreements to resell, federal funds sold and securities borrowed	2,991,793	884,808
(Additions) repayments to loans held for investment, net	(3,833,715)	5,158,051
Additions to investments in other financial instruments	(3,998,340)	(18,664,324)
Proceeds from sale and repayment of investments in other financial instruments	8,891,282	2,930,650
Sale (purchases) of mortgage servicing rights, net	1,300,151	(184,511)
Purchases of premises and equipment, net	(70,218)	(135,173)
Net cash provided (used) by investing activities	5,280,953	(10,010,499)
Cash flows from financing activities:		
Net increase in deposit liabilities	2,597,802	4,703,046
Net (decrease) increase in securities sold under agreements to repurchase	(14,673,582)	4,073,347
Net (decrease) increase in short-term borrowings	(2,841,746)	3,510,080
Issuance of long-term debt	500,000	24,026,503
Repayment of long-term debt	(8,060,931)	(21,364,797)
(Expense) benefit related to stock-based compensation	(4,361)	68,535
Repurchase and cancellation of common stock	—	(863,556)
Issuance of common stock	15,984	204,778
Payment of dividends	(247,034)	(177,532)
Net cash (used) provided by financing activities	(22,713,868)	14,180,404
Net decrease in cash	(2,160,082)	(252,968)
Cash at beginning of period	8,810,399	1,407,000
Cash at end of period	$ 6,650,317	$ 1,154,032

The accompanying notes are an integral part of these consolidated financial statements.

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COUNTRYWIDE FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1—Basis of Presentation

Countrywide Financial Corporation ("Countrywide" or "CFC") is a holding company which, through its subsidiaries (collectively, the "Company"), is engaged in real estate finance–related businesses, including mortgage banking, banking and mortgage warehouse lending, dealing in securities and insurance underwriting. As discussed in Note 2—*Subsequent Events—Merger and Subsequent Transactions with Bank of America Corporation*, effective on July 1, 2008, the Company became a wholly–owned subsidiary of Bank of America Corporation ("Bank of America").

These financial statements have been prepared assuming that Countrywide will continue to operate as a stand–alone entity and do not take into account any purchase accounting adjustments that may be recorded pursuant to Bank of America's acquisition of the Company, which was effective on July 1, 2008. These financial statements also do not reflect accounting changes that may be made to conform Countrywide's accounting policies to those of Bank of America.

The accompanying consolidated financial statements have been prepared in compliance with U.S. generally accepted accounting principles for interim financial information and with the Securities and Exchange Commission's instructions to Form 10–Q and Rule 10–01 of Regulation S–X. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements.

Preparation of financial statements in compliance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that materially affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the periods ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. For further information, including a description of the Company's significant accounting policies, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10–K for the year ended December 31, 2007 (the "2007 Annual Report").

Certain amounts included in the prior period consolidated financial statements have been reclassified to conform to the current year presentation.

Note 2—Subsequent Events—Merger and Subsequent Transactions with Bank of America Corporation

On January 11, 2008, Countrywide and Bank of America entered into an Agreement and Plan of Merger, pursuant to which Countrywide would merge (the "Merger") with and into Red Oak Merger Corporation, a wholly–owned merger subsidiary of Bank of America ("Merger Sub"), with Merger Sub continuing as the surviving company. The details of this agreement are contained in a Current Report on Form 8–K filed with the Securities and Exchange Commission on January 17, 2008, and the Amended Registration Statement on Form S–4 of Bank of America filed on May 28, 2008.

The Merger was concluded on July 1, 2008. On July 1, 2008, Merger Sub was renamed Countrywide Financial Corporation. As the result of the Merger, Countrywide common stock was converted into 0.1822 of a share of Bank of America common stock plus an amount of cash in lieu of

any fractional share and all shares of the Company's 7.25% Series B Non–Voting Convertible Preferred Stock were cancelled.

The Company notified the New York Stock Exchange of the conversion of its shares and related preferred stock purchase rights, requested that its common stock and preferred stock purchase rights be delisted and cease to trade at the close of business on June 30, 2008, and that the NYSE submit to the SEC Form 25s to report that the Company's shares of common stock and preferred stock purchase rights are no longer listed on the NYSE. The NYSE filed the Form 25s with the SEC on July 1, 2008.

Following completion of the Merger, the Company sold assets to other subsidiaries of Bank of America and used proceeds from these sales to repay its unsecured revolving lines of credit and bank loans. The Company expects to record no material gain or loss on these transactions after giving effect to purchase price adjustments.

- The Company sold two entities that own all of the partnership interests in Countrywide Home Loans Servicing, LP ("Servicing LP") to NB Holdings Corporation ("NBHC") for approximately $19.7 billion, subject to certain adjustments. At June 30, 2008, Servicing LP's assets included approximately $15.3 billion of Mortgage Servicing Rights ("MSRs") and $4.4 billion of reimbursable servicing advances
- The Company sold a pool of residential mortgage loans held by Countrywide Home Loans ("CHL") to NBHC for approximately $9.5 billion, subject to certain adjustments. The pool of residential mortgage loans included first and second lien mortgages, home equity line of credit loans, and construction loans
- The Company novated to Bank of America, N.A. a portfolio of derivative instruments held by CHL in exchange for $1.5 billion
- The Company sold a pool of commercial mortgage loans held by Countrywide Commercial Real Estate to NBHC for approximately $238 million, subject to certain adjustments
- The Company sold a pool of securities to Blue Ridge Investments, LLC for approximately $147 million. The pool of securities included asset–backed securities and mortgage–backed securities (MBS) held by Countrywide Securities Corporation ("CSC")
- The Company terminated and repaid its unsecured revolving lines of credit and bank loans, including interest and fees, with approximately $11.5 billion.

Details of these subsequent events and other transactions, are contained in the Company's Current Report on Form 8–K filed with the Securities and Exchange Commission on July 8, 2008.

Note 3—Adoption of New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements,* ("SFAS 157"). SFAS 157 provides a framework for measuring fair value when such measurements are used for accounting purposes. The framework focuses on an exit price in the principal (or, alternatively, the most advantageous) market accessible in an orderly transaction between willing market participants. SFAS 157 establishes a three–tiered fair value hierarchy based on the level of observable inputs used in the measurement of fair value (e.g., Level 1 representing quoted prices for identical assets or liabilities in an active market and Level 3 representing estimated values based on significant unobservable inputs). Under SFAS 157,

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related disclosures are segregated for assets and liabilities measured at fair value based on the level used within the hierarchy to determine their fair values. The Company adopted SFAS 157 on its effective date of January 1, 2008 and there was no financial impact. However, as permitted under FASB Staff Position No. 157–2, "Effective Date of FASB Statement No. 157," the Company elected to defer the application of SFAS 157 to certain nonfinancial assets and liabilities, which are not measured at fair value on a recurring basis, until January 1, 2009.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115,* ("SFAS 159"). SFAS 159 permits fair value accounting to be irrevocably elected for most financial assets and liabilities on an individual contract basis at the time of acquisition or remeasurement event date. Upon adoption of SFAS 159, fair value accounting may also be elected for existing financial assets and liabilities. For those instruments for which fair value accounting is elected, changes in fair value will be recognized in earnings and fees and costs associated with origination or acquisition will be recognized as incurred rather than deferred. The Company adopted SFAS 159 on its effective date of January 1, 2008 and the financial impact upon adoption was an increase in beginning retained earnings of $34.2 million. See Note 5—*Fair Value* for further discussion.

In April 2007, the FASB issued FASB Staff Position No. FIN 39–1, *Amendment of FASB Interpretation No. 39,* ("FSP FIN 39–1"). FSP FIN 39–1 amends certain paragraphs of FASB Interpretation Number 39, *Offsetting of Amounts Related to Certain Contracts,—an interpretation of APB Opinion No. 10 and FASB Statement No. 105* ("FIN 39") to permit a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement. Upon adoption on the effective date of January 1, 2008, the Company changed its accounting policy to offset the right to reclaim or obligation to return cash collateral against fair value amounts recognized for derivative instruments under master netting arrangements. Adoption of FSP FIN 39–1 resulted in a reduction in total assets of $3.4 billion at December 31, 2007.

In November 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 109 ("SAB 109"). SAB 109 supersedes Staff Accounting Bulletin No. 105 ("SAB 105"), *Application of Accounting Principles to Loan Commitments.* It clarifies that the expected net future cash flows related to the associated servicing of a loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. However, it retains the guidance in SAB 105 that internally–developed intangible assets should not be recorded as part of the fair value of a derivative loan commitment. The guidance is effective on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. This guidance generally has resulted in higher fair values being recorded upon initial recognition of derivative interest rate lock commitments. The initial and subsequent changes in value of interest rate lock commitments are a component of gain on sale of loans and securities. The effect of the adoption of SAB 109 was to increase gain on sale of loans and securities by $216.0 million. This amount represents the revenue recognized at the time the loan commitment was issued that is included in the value of the interest rate lock commitments or Mortgage Loan Inventory at June 30, 2008.

Note 4—(Loss) Earnings Per Share

Basic (loss) earnings per share is determined using net (loss) earnings (adjusted for dividends declared on preferred stock) divided by the weighted–average common shares outstanding during the period. Diluted earnings per share is computed by dividing net (loss) earnings attributable to common shareholders by the weighted–average shares outstanding, assuming all potentially dilutive common shares were issued. The Company has potentially dilutive shares in the form of employee stock–based compensation instruments, convertible debentures and convertible preferred stock. As detailed in Note 18—*Shareholders' Equity—Series B Convertible Preferred Stock*, included in the consolidated financial statements of the 2007 Annual Report, the Company issued $2.0 billion of convertible preferred stock on August 22, 2007.

The following table summarizes the basic and diluted (loss) earnings per share calculations for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(in thousands, except per share data)			
Net (loss) earnings:				
Net (loss) earnings	$ (2,330,099)	$ 485,068	$ (3,223,152)	$ 919,049
Dividends on convertible preferred stock	(36,250)	—	(72,500)	—
Net (loss) earnings attributable to common shareholders	$ (2,366,349)	$ 485,068	$ (3,295,652)	$ 919,049
Weighted–average shares outstanding:				
Basic weighted–average number of common shares outstanding	581,958	583,669	580,649	585,901
Effect of dilutive securities:				
Dilutive stock–based compensation instruments	—	11,871	—	12,963
Diluted weighted–average number of common shares outstanding	581,958	595,540	580,649	598,864
Net (loss) earnings per common share:				
Basic (loss) earnings per share	$ (4.07)	$ 0.83	$ (5.68)	$ 1.57
Diluted (loss) earnings per share	$ (4.07)	$ 0.81	$ (5.68)	$ 1.53

Due to the loss attributable to common shareholders for the three and six months ended June 30, 2008, no potentially dilutive shares are included in loss per share calculation as including such shares in the calculation would be anti–dilutive. During the three and six months ended June 30, 2007, stock appreciation rights and options to purchase 172,011 shares and 26,390 shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti–dilutive.

Note 5—Fair Value

The Company's financial statements include assets and liabilities that are measured based on their estimated fair values. The application of fair value estimates may be on a recurring or nonrecurring basis depending on the accounting principles applicable to the specific asset or liability or whether management has elected to carry the item at its estimated fair value as discussed in the following paragraphs.

As discussed in Note 3—*Adoption of New Accounting Pronouncements,* effective January 1, 2008, the Company adopted two pronouncements affecting the Company's fair value measurements and accounting: SFAS 157 and SFAS 159.

Transition Adjustment

Management identified existing mortgage loans held for sale and commitments to purchase mortgage loans within the Capital Markets Segment to be accounted for at estimated fair value for consistency with its peers who generally use fair value accounting as well as to reduce the burden of compliance with the requirements for hedge accounting. Such loans represented 2% of mortgage loans held for sale at the time of adoption of SFAS 159.

Management elected to account for certain outstanding asset−backed secured financings and the mortgage loans securing such financings at their estimated fair values to eliminate potential timing differences between recognition of changes in the estimated fair value of the loans securing these borrowings (which had been recorded at the lower of amortized cost or estimated fair value) and the estimated fair value of the borrowings (which had been recorded at amortized cost). This election was made for mortgage−backed secured financings collateralized by mortgage loans where the secondary market for the securities backed by the loans was disrupted. At the time of adoption, such borrowings represented 25% of mortgage−backed secured financings and the mortgage loans securing such borrowings represented 23% of mortgage loans held for sale.

Management elected fair value accounting for those portions of its investments in municipal bonds included in its available−for−sale securities investment portfolio managed by nonaffiliated investment managers to improve the operational efficiency of using investment managers. Such investments represented 1% of the securities investment portfolio at the time of adoption.

As a result of these elections, the Company recorded a $34.2 million cumulative effect adjustment to opening retained earnings as summarized below:

	Carrying Value Before Adoption	Transition Adjustments to Retained Earnings Gain/(Loss)	Transition Adjustments to Other Comprehensive Income	Carrying Value After Adoption
		(in thousands)		
Assets:				
Mortgage loans held for sale(1)	$ 2,897,216	$ 237		$ 2,897,453
Investment in other financial instruments:				
Investment securities	244,902	2,197	$ (2,197)	244,902
Interest rate lock commitments(2)	—	432		432
Total assets	$ 3,142,118			$ 3,142,787
Liabilities:				
Notes payable:				
Asset-backed secured financings	$ 2,353,250	51,060		$ 2,302,190
Accounts payable and accrued liabilities:				
Interest rate lock commitments(2)	51	51		—
Total liabilities	$ 2,353,301			$ 2,302,190
Pre-tax cumulative-effect of adoption of the fair value option		53,977		
Effect on income taxes payable		(19,728)		
Cumulative effect of adoption of the fair value option		$ 34,249		

(1) A lower of cost or market valuation allowance of $96.5 million was recorded as part of the basis of the loans accounted for at estimated fair value.

(2) Interest rate lock commitments include commitments to originate or purchase mortgage loans that qualify as derivative financial instruments under SFAS 133 and commitments to purchase loans accounted for at estimated fair value under the fair value option.

Prospective Fair Value Accounting Elections

Management identified certain new mortgage loans originated or purchased for sale in the Company's mortgage banking operations to be accounted for at estimated fair value so the changes in the fair value of such loans will be reflected in earnings as they occur to match the accounting to related hedging instruments, as well as to reduce the burden of compliance with the requirements for hedge accounting. The mortgage loans identified were those that have an existing active market (primarily agency-eligible mortgage loans). Such loans represented 85% and 86% of mortgage loans

originated or purchased and held for sale during the three and six months ended June 30, 2008, respectively.

Fair Value Measurements

Gains (losses) from changes in estimated fair values included in earnings for financial statement items carried at estimated fair value pursuant to the fair value option are summarized below:

	Three Months Ended	Six Months Ended
	June 30, 2008	
	(in thousands)	
Assets:		
Mortgage loans at fair value (1)	$ (253,717)	$(623,275)
Investments in other financial instruments:		
Investment securities	(5,741)	(2,493)
Interest rate lock commitments	1,692	208
Liabilities:		
Notes Payable:		
Asset-backed secured financings	37,304	388,464

(1) $90.5 million and $187.0 million of the loss recognized on mortgage loans was related to changes in the credit risk of the loans for the three and six months ended June 30, 2008, respectively.

Following is the fair value and related principal amount due upon maturity of assets and liabilities accounted for under the fair value option as of June 30, 2008:

	Fair Value	Principal Amount Due Upon Maturity	Difference
		(in thousands)	
Assets:			
Mortgage loans:			
Current through 89 days delinquent	$8,549,967	$ 9,079,690	$(529,723)
90 or more days delinquent	134,331	260,822	(126,491)
Investments in financial instruments:			
Investment securities	358,390	340,485	17,905
Liabilities:			
Notes Payable:			
Asset-backed secured financings	1,212,252	1,672,721	(460,469)

COUNTRYWIDE FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Following is a summary of financial statement items that are measured at estimated fair value on a recurring basis—including assets measured under the fair value option as of June 30, 2008:

	Level 1	Level 2	Level 3	Netting Adjustments (1)	Total
			(in thousands)		
Assets:					
Mortgage loans	$ —	$ 7,259,090	$ 1,425,208	$ —	$ 8,684,298
Trading securities	3	2,088,091	1,124,351	(2,019,444)	1,193,001
Investments in other financial instruments:					
Investment securities	234,334	2,343,562	13,424,032	—	16,001,928
Retained interests	—	—	1,510,579	—	1,510,579
Interest rate lock commitments(2)	—	—	150,817	—	150,817
Other derivative instruments	15,300	4,184,110	—	(3,014,737)	1,184,673
Total investments in other financial instruments	249,634	6,527,672	15,085,428	(3,014,737)	18,847,997
Mortgage servicing rights	—	—	18,402,390	—	18,402,390
Liabilities:					
Trading securities sold, not yet purchased	3	1,960,835	—	(1,929,423)	31,415
Notes Payable:					
Asset-backed secured financings	—	—	1,212,252	—	1,212,252
Accounts payable and accrued liabilities:					
Interest rate lock commitments(2)	—	—	43,868	—	43,868
Other derivative instruments	—	1,459,423	—	(1,306,119)	153,304

(1) Amounts represent the netting of the impact of qualifying master netting agreements that allow the Company to settle positive and negative positions in accordance with FIN 39, and cash collateral held or placed with the same counterparties.

(2) Interest rate lock commitments include commitments to originate or purchase mortgage loans that qualify as derivative financial instruments under SFAS 133 and commitments to purchase loans accounted for at estimated fair value under the fair value option (SFAS 159).

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COUNTRYWIDE FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Following is a summary of changes in balance sheet line items measured using Level 3 inputs:

	Three Months Ended June 30, 2008						
			Investments in Other Financial Instruments				
	Mortgage Loans	Trading Securities	Investment Securities	Retained Interests	Interest Rate Lock Commitments, Net	Mortgage Servicing Rights	Total
	(in thousands)						
Assets:							
Balance, March 31, 2008	$ 2,411,044	$ 1,346,992	$ 14,658,098	$ 1,853,177	$ 216,105	$ 17,154,574	$ 37,639,990
Total (losses) gains:							
Included in earnings	(116,542)	(85,440)	(457,703)	(138,714)	434,179	1,228,356	864,136
Included in other comprehensive income	—	—	(441,482)	(32,288)	—	—	(473,770)
Purchases, issuances and settlements	(814,467)	(137,201)	(334,881)	(171,596)	—	19,460	(1,438,685)
Transfers to mortgage loans:							
Level 2	—	—	—	—	(598,162)	—	(598,162)
Level 3	(54,827)	—	—	—	54,827	—	—
Balance, June 30, 2008	$ 1,425,208	$ 1,124,351	$ 13,424,032	$ 1,510,579	$ 106,949	$ 18,402,390	$ 35,993,509
Changes in unrealized (losses) gains relating to assets still held at June 30, 2008	$ (127,171)	$ 41,432	$ (457,791)	$ (152,158)	$ 109,156	$ 1,896,007	$ 1,309,475

	Notes Payable: Asset-backed Secured Financings
	(in thousands)
Liabilities:	
Balance, March 31, 2008	$ 1,692,472
Total gains:	
Included in earnings	(37,304)
Purchases, issuances and settlements	(442,916)
Balance, June 30, 2008	$ 1,212,252
Change in unrealized gains relating to liabilities still held at June 30, 2008	$ 72,852

COUNTRYWIDE FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

	Six Months Ended June 30, 2008						
			Investments in Other Financial Instruments				
	Mortgage Loans	Trading Securities	Investment Securities	Retained Interests	Interest Rate Lock Commitments, Net	Mortgage Servicing Rights	Total
				(in thousands)			
Assets:							
Balance, December 31, 2007	$ 3,480,673	$ 1,924,558	$ 16,330,950	$ 3,358,756	$ 107,718	$ 18,958,180	$ 44,160,835
Impact of SFAS 157 and SFAS 159 adoption	237	—	—	—	483	—	720
Balance, January 1, 2008	3,480,910	1,924,558	16,330,950	3,358,756	108,201	18,958,180	44,161,555
Total (losses) gains:							
Included in earnings	(574,725)	(290,385)	(491,735)	(675,047)	1,356,915	(985,983)	(1,660,960)
Included in other comprehensive income	—	—	(1,369,547)	(32,633)	—	—	(1,402,180)
Purchases, issuances and settlements	(1,342,016)	(509,822)	(1,045,636)	(1,140,497)	—	430,193	(3,607,778)
Transfers to mortgage loans:							
Level 2	—	—	—	—	(1,497,128)	—	(1,497,128)
Level 3	(138,961)	—	—	—	138,961	—	—
Balance, June 30, 2008	$ 1,425,208	$ 1,124,351	$ 13,424,032	$ 1,510,579	$ 106,949	$ 18,402,390	$ 35,993,509
Changes in unrealized (losses) gains relating to assets still held at June 30, 2008	$ (509,978)	$ (2,992)	$ (491,789)	$ (707,853)	$ 1,252	$ 435,295	$ (1,276,065)

	Notes Payable: Asset-backed Secured Financings
	(in thousands)
Liabilities:	
Balance, December 31, 2007	$ 2,353,250
Impact of SFAS 157 and SFAS 159 adoption	(51,060)
Balance, January 1, 2008	2,302,190
Total gains:	
Included in earnings	(388,464)
Purchases, issuances and settlements	(701,474)
Balance, June 30, 2008	$ 1,212,252
Change in unrealized gains relating to liabilities still held at June 30, 2008	$ 423,968

Gains and losses from changes in the estimated fair value of mortgage loans held for sale, interest rate lock commitments ("IRLCs"), trading securities and asset-backed secured financings are included in gain on sale of loans and securities. Gains and losses from changes in the estimated fair value of investment securities are included in other income and in realized loss on available for sale securities. Gains and losses from changes in the estimated fair value of retained interests are included in impairment of retained interests. Gains and losses from changes in the estimated fair value of mortgage

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servicing rights are included in realization of expected cash flows from mortgage servicing rights and change in fair value of mortgage servicing rights.

Valuation Techniques

For a complete discussion of valuation techniques used to value financial instruments, refer to Note 19—*Fair Value of Financial Instruments* to the consolidated financial statements included in the Company's 2007 Annual Report. The following describes the methods used by the Company in estimating the fair values of Level 3 financial statement items:

Mortgage Loans

The Company estimates the fair value of Level 3 loans based on relevant factors, including dealer price quotations, whole loan bid sheets, prices available for similar securities and valuation models intended to approximate the amounts that would be received from a third party. These techniques and related assumptions are used to approximate the whole loan price that would be received from an unaffiliated buyer.

The Company regularly compares the values developed from our valuation models to executed trades to assure that the valuations are reflective of actual sale prices. However, due to the illiquidity of the mortgage marketplace prevalent at June 30, 2008, which resulted in a lack of executed trades that could be used to assure that the valuations are reflective of fair value, it was necessary to look for alternative sources of value, including the whole loan purchase market for similar loans, and to apply more judgment to the valuations of non–conforming prime, prime home equity and subprime (formerly known as nonprime) loans, which represented approximately 18% of mortgage loans originated or purchased for resale excluding loans secured by commercial real estate at June 30, 2008.

Trading Securities

Level 3 trading securities primarily represent collateralized mortgage obligations for which fair value is estimated using valuation models and observable and unobservable assumptions intended to approximate the amounts that would be received from an unaffiliated buyer.

Investments in Other Financial Instruments:

Investment Securities

Mortgage–Backed Securities

Fair value for Level 3 non–agency mortgage–backed securities, which consist primarily of collateralized mortgage obligations, is estimated using valuation models and observable and unobservable assumptions intended to approximate the amounts that would be received from an unaffiliated buyer.

Retained Interests

Fair value of retained interests, with the exception of interest–only securities and mortgage–backed securities, is estimated through the use of proprietary, "static" (single rate path) discounted cash flow models. The Company has incorporated mortgage prepayment and credit loss

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assumptions in its valuation models that it believes other major market participants would consider in deriving the fair value of such retained interests.

Principal–Only Securities

Fair value is estimated through the use of a proprietary, multiple rate path discounted cash flow model. The Company has incorporated mortgage prepayment assumptions in its valuation that it believes other major market participants would consider in deriving the fair value of principal–only securities.

Interest–Only Securities

Fair value is estimated through the use of a proprietary, multiple rate path discounted cash flow model. The Company has incorporated mortgage prepayment assumptions in its valuation model that it believes other major market participants would consider in deriving the fair value of interest–only securities.

Interest Rate Lock Commitments

Effective January 1, 2008, the Company adopted SAB 109, which is effective on a prospective basis for IRLCs issued or modified after December 31, 2007. For IRLCs issued or modified after December 31, 2007, the Company estimates the fair value of an IRLC based on the estimated fair value of the underlying mortgage loan less the commitment price adjusted for the probability that the mortgage loan will fund within the terms of the IRLC. The Company generally estimates the fair value of the underlying loan based on quoted market prices for securities backed by similar types of loans together with estimated servicing value adjusted for the estimated costs and profit margin associated with securitization to approximate the whole loan price that would be received from an unaffiliated buyer. The estimated probability of mortgage loan funding is based on the Company's historical experience and is adjusted to reflect the risk of variability in such probability using an option pricing model. If quoted market prices for relevant securities are not available, fair value is estimated based on other relevant factors, including dealer price quotations, prices available for similar securities, and valuation models intended to approximate the amounts that would be received from a third party.

For IRLCs issued before January 1, 2008, the Company estimates the fair value of an IRLC based on the change in estimated fair value of the underlying mortgage loan and the probability that the mortgage loan will fund within the terms of the IRLC. The change in fair value of the underlying mortgage loan is measured from the date the IRLC is issued. At the time of issuance the estimated fair value of an IRLC is zero. Subsequent to issuance, the value of an IRLC can be either positive or negative, depending on the change in value of the underlying mortgage loan. The Company generally estimates the fair value of the underlying loan based on quoted market prices for securities backed by similar types of loans. If quoted market prices are not available, fair value is estimated based on other relevant factors, including dealer price quotations, prices available for similar instruments, and valuation models intended to approximate the amounts that would be received from a third party.

Mortgage Servicing Rights

The Company estimates the fair value of its MSRs using a process that combines the use of a discounted cash flow model and analysis of current market data to arrive at an estimate of fair value at each balance sheet date. The cash flow assumptions (which consider only contractual cash flows) and prepayment assumptions used in Countrywide's discounted cash flow model are based on market factors and encompass the historical performance of our MSRs. The key assumptions used in the valuation of MSRs include mortgage prepayment speeds and discount rates (projected London Inter Bank Offering Rate ("LIBOR") plus option–adjusted spread). These variables can, and generally do, change from quarter to quarter as market conditions and projected interest rates change. The current market data utilized in the MSR valuation process and in the assessment of the reasonableness of the MSR valuation are obtained from peer group MSR valuation surveys, MSR market trades, MSR broker valuations and prices of interest–only securities.

The cash flow model and underlying prepayment and interest rate models used to value the MSRs are subjected to validation in accordance with the Company's model validation policies. This process includes review of the theoretical soundness of the models and the related development process, back testing of actual results to model predictions, benchmarking to commercially available models and ongoing performance monitoring.

Asset–Backed Secured Financings

The Company estimates the fair value of Level 3 asset–backed secured financings based on relevant factors expected to reflect the amounts that would be received by an unaffiliated seller of the financings from an unaffiliated buyer, including dealer price quotations, prices available for similar instruments, and valuation models.

COUNTRYWIDE FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Following is a summary of items that are measured at estimated fair value on a nonrecurring basis:

	Level 1	Level 2	Level 3	Total	Gain (Loss) Three Months Ended June 30, 2008	Gain (Loss) Six Months Ended June 30, 2008
			(in thousands)			
At June 30, 2008:						
Mortgage loans held for sale	$ —	$ 2,502,233	$ 675,951	$ 3,178,184	$ (16,751)	$ (136,379)
Three months ended June 30, 2008:						
Mortgage loans held for investment transferred from mortgage loans held for sale	$ —	$ 213,438	$ 338,429	$ 551,867	$ (53,891)	$ —
Six months ended June 30, 2008:						
Mortgage loans held for sale transferred from mortgage loans held for investment(1)	$ —	$ 363,354	$ 2,042,953	$ 2,406,307	$ —	$ (19,477)
Mortgage loans held for investment transferred from mortgage loans held for sale	$ —	$ 1,272,241	$ 353,301	$ 1,625,542	$ —	$ (58,859)

(1) The mortgage loans transferred from mortgage loans held for investment to mortgage loans held for sale during the quarter ended March 31, 2008, consist of loans that had been carried as part of the mortgage loan investment portfolio for an average of 4.0 years. No such transfers were made during the quarter ended June 30, 2008.

Note 6—Derivative Financial Instruments

Derivative Financial Instruments

A significant market risk facing the Company is interest rate risk, which includes the risk that changes in market interest rates will result in unfavorable changes in the value of our assets or liabilities ("price risk") and the risk that net interest income from our mortgage loan and investment portfolios will change in response to changes in interest rates. This risk includes both changes in "risk−free" rates (usually the U.S. Treasury rate for an asset of the same duration) and changes in the premiums to risk−free rates of return required by investors, which may be the result of liquidity and/or investor perceptions of risk ("Market Spread"). The overall objective of the Company's interest rate risk management activities is to reduce the variability of earnings caused by changes in interest rates.

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The Company manages interest rate risk with derivative financial instruments and by the structure of its activities as follows:

- The Company uses various financial instruments, including derivatives, to manage the interest rate risk related specifically to the values of its IRLCs, mortgage loans held by the Company pending sale ("Mortgage Loan Inventory"), MSRs, retained interests, trading securities, and a portion of its debt.

- Structurally, the Company manages interest rate risk in its mortgage banking activities through the natural counterbalance of its loan production and servicing businesses while using portfolios of financial instruments, including derivatives, to separately moderate interest rate driven changes in value of these businesses' assets. However, the market disruption that began in the latter part of 2007 has impacted the availability and the cost of derivative financial instruments used to manage Market Spread-driven changes in the value of our mortgage banking assets. Although separate portfolios of financial instruments were maintained to manage the interest rate risk inherent in the mortgage banking assets, the Company managed its aggregate changes in value of those assets arising from Market Spread risk during the six months ended June 30, 2008 by relying more on the opposing Market Spread risk inherent in the loan production and loan servicing assets. Specifically, as Market Spreads widen the value of our IRLCs and Mortgage Loan Inventory generally decrease while the value of MSRs increase. Accordingly, Market Spread related changes in the value of sector assets and the related hedge instruments (collectively the "Position") were allocated between loan production activities and loan servicing activities in the six months ended June 30, 2008.

- The Company manages interest rate risk relating to its portfolios of investment securities of loans held for investment largely by funding interest-earning assets with liabilities of similar duration or a combination of derivative instruments and certain liabilities that create repricing characteristics that closely reflect the repricing behaviors of those assets.

Risk Management Activities Related to Mortgage Loan Inventory and Interest Rate Lock Commitments

The Company actively manages the risk profiles of its IRLCs and Mortgage Loan Inventory on a daily basis. To manage the price risk associated with the IRLCs, the Company generally uses a combination of net forward sales of MBS and put and call options on MBS, Treasury futures and Eurodollar futures. The Company generally enters into forward sales of MBS in an amount equal to the portion of the IRLCs expected to close, assuming no change in mortgage interest rates. The Company acquires put and call options to protect against the variability of loan closings caused by changes in mortgage rates. The Company may enter into credit default swaps as part of its management of Market Spread risk.

The Company manages the price risk related to the Mortgage Loan Inventory primarily by entering into forward sales of MBS and Eurodollar futures. The value of these forward MBS sales and Eurodollar futures moves in opposite direction to the value of the Mortgage Loan Inventory. The Company may enter into credit default swaps or similar instruments as part of its management of Market Spread-driven changes associated with its Mortgage Loan Inventory.

The Company manages the price risk related to its commercial mortgage loans using interest rate swaps, total rate of return and credit default swaps.

During the six months ended June 30, 2008, the interest rate risk management activities associated with 14% of the fixed–rate mortgage loan inventory and 11% of the adjustable–rate mortgage loan inventory were accounted for as fair value hedges. These percentages decreased from prior periods because the Company began accounting for a substantial portion of its inventory at estimated fair value. For the six months ended June 30, 2008 and 2007, the Company recognized pre–tax losses of $18.7 million and $6.4 million, respectively, representing the ineffective portion of the hedges of its Mortgage Loan Inventory that qualified as fair value hedges.

Risk Management Activities Related to Mortgage Servicing Rights and Retained Interests

To moderate the impact on earnings caused by a rate–driven decline in fair value of its MSRs and retained interests from securitization, the Company maintains a portfolio of financial instruments, including derivatives and securities, which generally increase in value when interest rates decline. During early 2007, the Company used credit–related derivative financial instruments to moderate the negative impact on earnings caused by a Market Spread–driven decline in fair value. This portfolio of financial instruments is collectively referred to as the "Servicing Hedge."

The following table summarizes the activity for derivative contracts included in the Servicing Hedge expressed by notional amounts:

	Balance, December 31, 2007	Additions	Dispositions/ Expirations	Balance, June 30, 2008
		(in millions)		
Interest rate swaptions	$ 102,410	$ 93,200	$ (98,690)	$96,920
Interest rate swaps	47,675	100,251	(71,090)	76,836
Treasury futures	45,000	21,678	(21,678)	45,000
Call options on interest rates futures	15,500	96,550	(112,050)	—
Mortgage forward rate agreements	13,000	51,100	(15,000)	49,100
MBS forward contracts	9,500	90,830	(94,550)	5,780

Risk Management Activities Related to Issuance of Long–Term Debt

The Company has entered into interest rate swap contracts in which the rate received is fixed and the rate paid is adjustable and is indexed to LIBOR. These interest rate swaps enable the Company to convert a portion of its fixed–rate, long–term debt to U.S. dollar LIBOR–based floating–rate debt (notional amount of $2.3 billion as of June 30, 2008) and a portion of its foreign currency–denominated fixed and floating–rate, long–term debt to U.S. dollar LIBOR–based floating–rate debt (notional amount of $4.0 billion as of June 30, 2008). These transactions are generally designated as fair value hedges. For the six months ended June 30, 2008 and 2007, the Company recognized pre–tax gains of $58.2 million and $9.8 million, respectively, representing the ineffective portion of its fair value hedges of debt.

Risk Management Activities Related to Deposit Liabilities

The Company has entered into interest rate swap contracts that have the effect of converting a portion of its fixed–rate deposit liabilities to LIBOR–based variable–rate deposit liabilities. These transactions are designated as fair value hedges. For the six months ended June 30, 2008 and 2007, the Company recognized a pre–tax loss of $10.0 million and pre–tax gains of $0.3 million, respectively, representing the hedge ineffectiveness related to these contracts.

Risk Management Activities Related to the Broker–Dealer Securities Trading Portfolio

The Company is exposed to price changes in its trading portfolio of fixed–income securities, primarily MBS, held in connection with its broker–dealer activities. To manage the price risk that results from interest rate changes during the period it holds the securities, the Company utilizes derivative instruments including forward sales/purchases of To–Be–Announced ("TBA") MBS, interest rate futures contracts, interest rate swaps, total rate of return swaps, put/call options on interest rate futures contracts, interest rate caps, receiver swaptions, credit default swaps and forward rate agreements.

Note 7—Mortgage Loans Held for Sale

Mortgage loans held for sale include the following:

	June 30, 2008	December 31, 2007
	(in thousands)	
Mortgage loans carried at estimated fair value:		
Prime	$ 7,225,291	$ —
Subprime	1,328,074	—
Commercial real estate	84,813	—
	8,638,178	—
Mortgage loans carried at lower of amortized cost or estimated fair value:		
Prime	2,880,816	7,815,880
Subprime	2,432	3,038,980
Prime home equity	25,964	82,131
Commercial real estate	270,938	1,055,343
Deferred premiums, discounts, fees and costs, net	44,104	(167,945)
Lower of cost or market valuation allowance	(46,070)	(143,115)
	3,178,184	11,681,274
	$ 11,816,362	$ 11,681,274

The Company generally estimates the fair value of loans held for sale based on quoted market prices for securities backed by similar types of loans. If quoted market prices are not available, fair value is estimated based on other relevant factors, including dealer price quotations, prices available for similar instruments, and valuation models intended to approximate the amounts that would be received from a third party. We regularly compare the values developed from our valuation models to executed trades to assure that the valuations are reflective of actual sale prices. However, due to the illiquidity of the mortgage marketplace at June 30, 2008, which resulted in a lack of executed trades that could be used to assure that the valuations are reflective of fair value, it was necessary to look for alternative sources of value, including the whole loan purchase market for similar loans, and to apply more judgment to the valuations of non–conforming prime, prime home equity and subprime loans, which represented approximately 18% of mortgage loans held for sale excluding loans secured by commercial real estate at June 30, 2008.

At June 30, 2008, the Company had pledged mortgage loans held for sale with unpaid principal balances totaling $1.3 billion and $0.3 billion to secure collateral for asset-backed secured financings and secure Federal Home Loan Bank ("FHLB") advances, respectively.

At December 31, 2007, the Company had pledged mortgage loans held for sale with unpaid principal balances totaling $0.3 billion, $0.01 billion, $4.4 billion and $0.8 billion to secure a secured revolving line of credit, securities sold under agreements to repurchase, collateral for asset-backed secured financings and to secure FHLB advances, respectively.

Note 8—Trading Securities and Trading Securities Sold, Not Yet Purchased

Trading securities, which consist of trading securities owned and trading securities pledged as collateral, include the following:

	June 30, 2008	December 31, 2007
	(in thousands)	
U.S. Treasury securities	$ —	$ 3,974,806
Agency mortgage pass-through securities	2	13,767,268
Obligations of U.S. Government-sponsored enterprises	—	781,470
Collateralized mortgage obligations	255,859	1,988,054
Asset-backed securities	55,072	121,582
Interest-only securities	808,191	404,364
Residual securities	5,310	857
Mark-to-market on TBA securities	37,226	67,213
Derivative financial instruments	31,339	231,587
Other	2	5,406
	$1,193,001	$21,342,607

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COUNTRYWIDE FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Trading securities by credit rating were as follows:

	June 30, 2008					
		Credit Rating				
	Total(1)	AAA	AA	A	<A	Not Rated(2)
	(in thousands)					
U.S. Treasury securities	$ —	$ —	$ —	$ —	$ —	$ —
Agency mortgage pass–through securities	2	2	—	—	—	—
Collateralized mortgage obligations	255,859	227,718	6,266	1,119	19,362	1,394
Asset–backed securities	55,072	9,525	32,052	1,025	12,470	—
Interest–only securities	808,191	490,445	—	—	—	317,746
Residual securities	5,310	23	—	612	1,129	3,546
Other	2	—	—	—	—	2
	$ 1,124,436	$ 727,713	$ 38,318	$ 2,756	$ 32,961	$ 322,688

(1) Derivative financial instruments, including mark–to–market on TBA securities, are not included in this table as derivative financial instruments are contracts between Countrywide and a counterparty. Such contracts are not rated by the rating agencies. Countrywide manages its derivatives counterparty risk by entering into derivatives only with creditworthy counterparties and limiting its exposure to individual counterparties.

(2) These securities are generally not rated due to their illiquidity and the absence of significant trading activity.

As of June 30, 2008, $133.2 million of the Company's trading securities had been pledged as collateral for financing purposes. None of the financing agreements provided the counterparties with the contractual right to sell or re–pledge the trading securities.

As of December 31, 2007, $15.4 billion of the Company's trading securities had been pledged as collateral for financing purposes, of which the counterparty had the contractual right to sell or re–pledge $6.8 billion.

Trading securities sold, not yet purchased, include the following:

	June 30, 2008	December 31, 2007
	(In thousands)	
U.S. Treasury securities	$ —	$ 2,744,206
Obligations of U.S. Government–sponsored enterprises	—	401,298
Mark–to–market on TBA securities	17,359	196,733
Derivative financial instruments	14,053	343,782
Other	3	959
	$31,415	$ 3,686,978

Exhibit 2
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Note 9—Securities Purchased Under Agreements to Resell, Securities Borrowed and Federal Funds Sold

The following table summarizes securities purchased under agreements to resell, securities borrowed and federal funds sold:

	June 30, 2008	December 31, 2007
	(in thousands)	
Securities purchased under agreements to resell	$2,874,086	$ 5,384,569
Securities borrowed	—	928,857
Federal funds sold	3,775,000	3,327,453
	$6,649,086	$ 9,640,879

As of June 30, 2008, the Company had accepted collateral related to securities purchased under agreements to resell and securities borrowed with a fair value of $5.8 billion that it had the contractual ability to sell or re–pledge, including $3.2 billion related to amounts offset by securities sold under agreements to repurchase under master netting arrangements. As of June 30, 2008, the Company had re–pledged $4.9 billion of such collateral for financing purposes.

Through June 30, 2008, the Company had an informal agreement with one of its primary securities custodial banks to have on deposit adequate cash to ensure orderly clearance and settlement of securities and financing transactions on the date of settlement. At June 30, 2008, Countrywide had $0.5 billion on deposit with the custodial bank available to clear future transactions.

As of December 31, 2007, the Company had accepted collateral related to securities purchased under agreements to resell and securities borrowed with a fair value of $17.6 billion, that it had the contractual ability to sell or re–pledge, including $9.0 billion related to amounts offset by securities sold under agreements to repurchase under master netting arrangements. As of December 31, 2007, the Company had re–pledged $14.3 billion of such collateral for financing purposes.

Note 10—Loans Held for Investment, Net

Loans held for investment include the following:

	June 30, 2008	December 31, 2007
	(in thousands)	
Mortgage loans:		
Prime		
Pay option and payment advantage	$ 26,409,335	$ 28,509,138
Other	30,071,783	25,517,950
	56,481,118	54,027,088
Prime home equity	32,864,577	34,539,144
Subprime	2,454,542	2,725,407
Commercial real estate	181,390	265,845
Total mortgage loans	91,981,627	91,557,484
Defaulted FHA–insured and VA–guaranteed loans repurchased from securities	3,411,386	2,691,563
Warehouse lending advances secured by mortgage loans	904,647	887,134
	96,297,660	95,136,181
Premiums, discounts and deferred loan origination fees and costs, net	(469,411)	(363,560)
Allowance for loan losses	(5,035,651)	(2,399,491)
	90,792,598	92,373,130
Mortgage Loans Held in SPEs	3,438,392	5,627,583
Loans held for investment, net	$ 94,230,990	$ 98,000,713

Loans are transferred from mortgage loans held for sale to mortgage loans held for investment when the Company makes the decision to hold such loans for the foreseeable future, which has been defined as the next twelve months, and has made an assessment that the Company has the ability to hold them for that time. During the six months ended June 30, 2008, the Company transferred prime, prime home equity and subprime mortgage loans with an unpaid principal balance of $1.5 billion, $0.1 billion and $0.1 billion, respectively, from mortgage loans held for sale to mortgage loans held for investment, as management made the decision in the first six months of 2008 to hold those loans for the foreseeable future. In connection with these transfers, impairment in the amount of $73.4 million was recorded as a component of gain on sale of loans and securities.

Mortgage loans with unpaid principal balances totaling $58.8 billion and $62.6 billion were pledged to secure FHLB advances and to enable additional borrowings from the FHLB at June 30, 2008 and December 31, 2007, respectively.

Mortgage loans held for investment with unpaid principal balances totaling $7.4 billion and $6.0 billion were pledged to secure an unused borrowing facility with the Federal Reserve Bank ("FRB") at June 30, 2008 and December 31, 2007, respectively.

Mortgage loans held for investment with unpaid principal balances totaling $0.5 billion were pledged to secure securities sold under agreements to repurchase at June 30, 2008.

COUNTRYWIDE FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Defaulted FHA–insured and VA–guaranteed loans repurchased from securities totaling $1.3 billion were pledged to secure securities sold under agreements to repurchase at December 31, 2007. No amounts were pledged at June 30, 2008.

Mortgage loans with unpaid principal balances totaling $1.9 billion were pledged to secure a revolving line of credit at December 31, 2007. No amounts were pledged at June 30, 2008.

Mortgage loans held in special purpose entities ("SPEs") with carrying values totaling $3.4 billion and $5.6 billion were pledged to secure asset–backed secured financings at June 30, 2008 and December 31, 2007, respectively. These amounts included $0.2 billion and $0.3 billion of real estate acquired in settlement of loans as of June 30, 2008 and December 31, 2007, respectively. These assets were re–recognized on the Company's consolidated balance sheets at their estimated fair value after management concluded that certain securities collateralized by these loans it had reacquired as part of its market–making activities would be held for an other–than–temporary period. The carrying value of the mortgage loans held in SPEs includes fair value discounts of $862.1 million and $960.7 million at June 30, 2008 and December 31, 2007, respectively.

As of both June 30, 2008 and December 31, 2007, the Company had accepted mortgage loan collateral securing warehouse lending advances of $1.0 billion, that it had the contractual ability to re–pledge.

The Company modified loans for borrowers who would not be able to obtain refinancing from other lenders under the modified terms. Other loans were modified to retain borrowers with good payment history but the modifications were considered to represent credit concessions. These transactions were classified as troubled debt restructurings. The majority of these transactions involved modifications of current loans from payment option adjustable–rate mortgage ("ARM") loans to payment advantage ARM loans with interest rates that are fixed for five years. Because these modifications were made at terms not comparable to market terms that would be offered if the modified loans were fully underwritten, the Company categorized these transactions as troubled debt restructurings.

Troubled debt restructurings at June 30, 2008 and December 31, 2007 totaled $1.2 billion and $282.6 million, respectively, the majority of which were the conversions of current payment–option ARM loans to payment–advantage ARM loans. Of the troubled debt restructurings, $1.1 billion and $6.3 million were on accrual status as of June 30, 2008 and December 31, 2007, respectively. An impairment allowance of $117.2 million and $11.0 million relating to these loans is included in the allowance for loan losses as of June 30, 2008 and December 31, 2007, respectively. Management considered $28.8 million and $37.3 million of warehouse lending loans to be impaired as of June 30, 2008 and December 31, 2007, respectively. The average investment in impaired loans, consisting of troubled debt restructurings and nonperforming warehouse lines of credit, during the six months ended June 30, 2008 was $784.9 million and none during the six months ended June 30, 2007.

Changes in the allowance for loan losses, the composition of the provision for loan losses and the allowance for loan losses were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(in thousands)			
Balance, beginning of period	$ 3,351,304	$ 464,131	$ 2,399,491	$ 326,817
Provision for loan losses before estimated pool mortgage insurance recoveries	2,614,321	368,811	4,172,399	544,774
Charge–offs	(942,020)	(157,447)	(1,571,623)	(198,516)
Recoveries	12,046	3,060	35,384	5,480
Balance, end of period	$ 5,035,651	$ 678,555	$ 5,035,651	$ 678,555

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(in thousands)			
Provision for loan losses before estimated pool mortgage insurance recoveries	$ 2,614,321	$ 368,811	$ 4,172,399	$ 544,774
Change in estimate of amounts recoverable from pool mortgage insurance	(283,396)	(75,887)	(340,122)	(99,888)
Provision for loan losses	$ 2,330,925	$ 292,924	$ 3,832,277	$ 444,886

	June 30,	
	2008	2007
	(in thousands)	
Allowance for loan losses	$5,035,651	$ 678,555
Estimated amount recoverable from pool mortgage insurance	(895,925)	(165,651)
Allowance for loan losses, net of estimated pool mortgage insurance	$4,139,726	$ 512,904

The Company has recorded a liability for losses on unfunded loan commitments in accounts payable and accrued liabilities totaling $63.7 million and $38.4 million at June 30, 2008 and December 31, 2007, respectively. The provision for these losses is recorded in other expenses. The following is a summary of changes in the liability:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(in thousands)			
Balance, beginning of period	$65,835	$13,759	$38,384	$ 8,104
Provision for losses on unfunded loan commitments	(2,181)	4,463	25,270	10,118
Balance, end of period	$63,654	$18,222	$63,654	$18,222

Note 11—Investments in Other Financial Instruments, at Estimated Fair Value

Investments in other financial instruments include the following:

	June 30, 2008	December 31, 2007
	(in thousands)	
Securities accounted for as available-for-sale:		
Prime non-agency mortgage-backed securities	$ 13,421,562	$ 16,328,280
Prime agency mortgage-backed securities	1,645,915	2,944,210
Subprime mortgage-backed securities	786	35
Obligations of U.S. Government-sponsored enterprises	145,901	255,205
Municipal bonds	167,707	419,540
U.S. Treasury securities	88,433	92,900
Corporate bonds	97,596	74,643
Investment securities	15,567,900	20,114,813
Interests retained in securitization—non credit-sensitive:		
Mortgage-backed pass-through securities	34,616	37,567
Prime interest-only and principal-only securities	227,924	256,832
Prepayment penalty bonds	6,615	9,516
Total interests retained in securitization—non credit-sensitive	269,155	303,915
Interests retained in securitization—credit-sensitive(1):		
Mortgage-backed pass-through securities	176	281
Prime residual securities	9,254	8,026
Prime home equity retained interests	77,175	94,112
Subprime retained interests	27,382	29,770
Total interests retained in securitization—credit-sensitive(1)	113,987	132,189
Total securities accounted for as available-for-sale	15,951,042	20,550,917
Financial instruments with changes in unrealized gains and losses recognized in earnings in the period of change:		
Securities accounted for as trading:		
Interests retained in securitization—non credit-sensitive:		
Mortgage-backed pass-through securities	175,879	559,880
Prime interest-only and principal-only securities	730,759	745,160
Prepayment penalty bonds	45,979	70,401
Interest rate swaps	—	50
Total interests retained in securitization—non credit-sensitive	952,617	1,375,491
Interests retained in securitization—credit-sensitive(1):		
Mortgage-backed pass-through securities	22,907	34,424
Prime residual securities	20,479	12,531
Prime home equity retained interests	76,916	328,569
Subprime retained interests	54,518	263,278
Total interests retained in securitization—credit-sensitive(1)	174,820	638,802
Servicing Hedge principal-only securities	—	908,358
Municipal bonds	358,390	—
Corporate bonds	75,638	72,685
Total securities accounted for as trading	1,561,465	2,995,336
Hedging and pipeline derivatives	1,335,490	2,271,406
Total financial instruments with changes in unrealized gains and losses recognized in earnings in the period of change	2,896,955	5,266,742
Total investments in other financial instruments	$ 18,847,997	$ 25,817,659

(1) Credit-sensitive securities retained in securitization includes securities that are expected to absorb credit losses from interests that are senior in the securitization structure.

Exhibit 2
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COUNTRYWIDE FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Investments in other financial instruments by credit rating were as follows:

	June 30, 2008					
		Credit Rating				
	Total(1)	AAA	AA	A	<A	Not Rated(2)
	(in thousands)					
Securities accounted for as available–for–sale:						
Prime non–agency mortgage–backed securities	$ 13,421,562	$ 13,325,612	$ 63,024	$ 21,798	$ 11,128	$ —
Prime agency mortgage–backed securities	1,645,915	1,645,915	—	—	—	—
Sub prime mortgage–backed securities	786	786	—	—	—	—
Obligations of U.S. Government–sponsored enterprises	145,901	145,901	—	—	—	—
Municipal bonds	167,707	55,775	95,059	16,873	—	—
U.S. Treasury securities	88,433	88,433	—	—	—	—
Corporate bonds	97,596	97,546	—	50	—	—
Investment securities	15,567,900	15,359,968	158,083	38,721	11,128	—
Interests retained in securitization—non credit–sensitive:						
Mortgage–backed pass–through securities	34,616	22,511	12,105	—	—	—
Prime interest–only and principal–only securities	227,924	201,821	—	—	—	26,103
Prepayment penalty bonds	6,615	535	—	—	—	6,080
Total interests retained in securitization—non credit–sensitive	269,155	224,867	12,105	—	—	32,183
Interests retained in securitization—credit–sensitive:						
Mortgage–backed pass–through securities	176	—	—	—	176	—
Prime residual securities	9,254	—	—	—	—	9,254
Prime home equity retained interests	77,175	—	—	—	—	77,175
Subprime retained interests	27,382	4,548	—	—	—	22,834
Total interests retained in securitization—credit–sensitive	113,987	4,548	—	—	176	109,263
Total securities accounted for as available–for–sale	$ 15,951,042	$ 15,589,383	$ 170,188	$ 38,721	$ 11,304	$ 141,446
Financial instruments with changes in unrealized gains and losses recognized in earnings in the period of change:						
Securities accounted for as trading:						
Interests retained in securitization—non credit–sensitive:						
Mortgage–backed pass–through securities	$ 175,879	$ 116,153	$ 29,463	$ 23,373	$ 6,890	$ —
Prime interest–only and principal–only securities	730,759	730,759	—	—	—	—
Prepayment penalty bonds	45,979	—	—	—	—	45,979
Total interests retained in securitization—non credit–sensitive	952,617	846,912	29,463	23,373	6,890	45,979
Interests retained in securitization—credit–sensitive:						
Mortgage–backed pass–through securities	22,907	—	—	—	21,387	1,520
Prime residual securities	20,479	—	—	—	—	20,479
Prime home equity retained interests	76,916	—	—	—	—	76,916
Subprime retained interests	54,518	—	—	—	—	54,518
Total interests retained in securitization—credit–sensitive	174,820	—	—	—	21,387	153,433
Municipal bonds	358,390	111,285	174,002	61,817	11,286	—
Corporate bonds	75,638	3,956	13,367	42,093	16,222	—
Total securities accounted for as trading	1,561,465	962,153	216,832	127,283	55,785	199,412
Total investments in other financial instruments	$ 17,512,507	$ 16,551,536	$ 387,020	$ 166,004	$ 67,089	$ 340,858

(1) Hedging and mortgage pipeline derivative financial instruments are not included in this table as derivatives are contracts between Countrywide and a counterparty and are not rated by the rating agencies. Countrywide manages its derivatives counterparty risk by entering into derivatives only with creditworthy counterparties and limiting its exposure to individual counterparties.

(2) These securities are generally not rated due to their illiquidity and the absence of significant trading activity.

Exhibit 2
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COUNTRYWIDE FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

At June 30, 2008, the Company had pledged $0.8 billion of investments in other financial instruments to secure securities sold under agreements to repurchase, which the counterparty had the contractual right to re–pledge. At June 30, 2008, the Company had pledged $0.05 billion of MBS to secure its derivative instrument liabilities and $0.03 billion of MBS to secure a borrowing facility with the FRB.

At December 31, 2007, the Company had pledged $0.08 billion of MBS to secure securities sold under agreements to repurchase, which the counterparty had the contractual right to re–pledge. At December 31, 2007, the Company had also pledged $0.01 billion of MBS to secure margin calls on derivative instruments and $1.6 billion of MBS to secure a borrowing facility with the FRB.

At June 30, 2008 and December 31, 2007, the Company had pledged $12.4 billion and $13.4 billion of MBS to enable future borrowings with the FHLB.

Amortized cost and fair value of available–for–sale securities were as follows:

	June 30, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Prime non–agency mortgage–backed securities	$ 15,196,885	$ 3,926	$ (1,779,249)	$ 13,421,562
Prime agency mortgage–backed securities	1,650,082	10,290	(14,457)	1,645,915
Subprime mortgage–backed securities	802	—	(16)	786
Obligations of U.S. Government–sponsored enterprises	141,468	4,433	—	145,901
Municipal bonds	167,214	851	(358)	167,707
U.S. Treasury securities	84,682	3,779	(28)	88,433
Interests retained in securitization	372,322	65,242	(54,422)	383,142
Corporate bonds	97,288	1,464	(1,156)	97,596
	$ 17,710,743	$ 89,985	$ (1,849,686)	$ 15,951,042

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Prime non–agency mortgage–backed securities	$ 16,734,057	$ 10,147	$ (415,924)	$ 16,328,280
Prime agency mortgage–backed securities	2,942,460	18,628	(16,878)	2,944,210
Subprime mortgage–backed securities	35	—	—	35
Obligations of U.S. Government–sponsored enterprises	249,826	5,379	—	255,205
Municipal bonds	415,420	4,678	(558)	419,540
U.S. Treasury securities	89,142	3,760	(2)	92,900
Interests retained in securitization	392,966	63,690	(20,552)	436,104
Corporate bonds	72,519	2,127	(3)	74,643
	$ 20,896,425	$ 108,409	$ (453,917)	$ 20,550,917

Exhibit 2
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COUNTRYWIDE FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

The Company's available–for–sale securities in an unrealized loss position were as follows:

	June 30, 2008					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
	(in thousands)					
Prime non–agency mortgage–backed securities	$ 7,031,496	$ (917,859)	$ 5,195,697	$ (861,390)	$ 12,227,193	$ (1,779,249)
Prime agency mortgage–backed securities	447,927	(5,987)	491,375	(8,470)	939,302	(14,457)
Subprime mortgage–backed securities	633	(4)	153	(12)	786	(16)
Municipal bonds	—	—	53,366	(358)	53,366	(358)
U.S. Treasury securities	3,483	(28)	—	—	3,483	(28)
Interests retained in securitization	46,095	(15,876)	111,306	(38,546)	157,401	(54,422)
Corporate Bonds	34,426	(1,156)	50	—	34,476	(1,156)
	$ 7,564,060	$ (940,910)	$ 5,851,947	$ (908,776)	$ 13,416,007	$ (1,849,686)

	December 31, 2007					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Grosse Unrealized Loss	Fair Value	Gross Unrealized Loss
	(in thousands)					
Prime non–agency mortgage–backed securities	$ 10,000,860	$ (262,031)	$ 3,210,776	$ (153,893)	$ 13,211,636	$ (415,924)
Prime agency mortgage–backed securities	196,561	(842)	833,354	(16,036)	1,029,915	(16,878)
Municipal bonds	11,144	(63)	99,658	(495)	110,802	(558)
U.S. Treasury securities	—	—	7,498	(2)	7,498	(2)
Interests retained in securitization	14,720	(887)	114,343	(19,665)	129,063	(20,552)
Corporate Bonds	305	(3)	50	—	355	(3)
	$ 10,223,590	$ (263,826)	$ 4,265,679	$ (190,091)	$ 14,489,269	$ (453,917)

The Company's Asset/Liability Committee ("ALCO") assesses securities classified as available–for–sale for other–than–temporary impairment on a quarterly basis. This assessment evaluates whether the Company intends to and is able to recover the amortized cost of the securities when taking into account the Company's present investment objectives and liquidity requirements and whether the creditworthiness of the issuer calls the realization of contractual cash flows into question.

During the six months ended June 30, 2008, ALCO determined that it was no longer reasonably assured that the decline in value would be recovered during the holding period of certain prime non–agency mortgage–backed securities. Such securities had a carrying value of $1.5 billion when this determination was made. As a result of this determination, unrealized losses recorded in accumulated other comprehensive income totaling $0.5 billion were transferred to earnings during the six months ended June 30, 2008. No such losses were recorded during the six months ended June 30, 2007.

Exhibit 2

COUNTRYWIDE FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Gross gains and losses realized on the sales of available–for–sale securities (excluding recognition of other than temporary impairment) were as follows:

	Six Months Ended June 30,	
	2008	2007
	(in thousands)	
Prime agency mortgage–backed securities:		
Gross realized gains	$11,493	$ 11
Gross realized losses	(2,115)	—
Net	9,378	11
Prime non–agency mortgage–backed securities:		
Gross realized gains	90	—
Gross realized losses	(3,394)	—
Net	(3,304)	—
Municipal bonds:		
Gross realized gains	—	75
Gross realized losses	—	(857)
Net	—	(782)
Obligations of U.S. Government–sponsored enterprises:		
Gross realized gains	1,608	—
Gross realized losses	—	—
Net	1,608	—
Interests retained in securitization:		
Gross realized gains	—	1,615
Gross realized losses	(1,599)	(12)
Net	(1,599)	1,603
Total gains and losses on available–for–sale securities:		
Gross realized gains	13,191	1,701
Gross realized losses	(7,108)	(869)
Net	$ 6,083	$ 832

Note 12—Mortgage Servicing Rights, at Estimated Fair Value

The activity in MSRs was as follows:

	Six Months Ended June 30,	
	2008	2007
	(in thousands)	
Balance at beginning of period	$ 18,958,180	$ 16,172,064
Additions:		
Servicing resulting from transfers of financial assets	1,730,344	4,156,287
Purchases	7,420	184,511
Total additions	1,737,764	4,340,798
Less sales	(1,307,571)	—
Change in fair value:		
Due to changes in valuation inputs or assumptions used in valuation model(1)	435,295	1,231,513
Other changes in fair value(2)	(1,421,278)	(1,657,007)
Balance at end of period	$ 18,402,390	$ 20,087,368

(1) Principally reflects changes in discount rates and prepayment speed assumptions, primarily due to changes in interest rates.

(2) Represents changes due to realization of expected cash flows.

As detailed in Note 2—*Subsequent Events—Merger and Subsequent Transactions with Bank of America Corporation*, on July 2, 2008, the Company sold two entities that hold the partnership interests in the Company's primary loan servicing subsidiary, Servicing LP, to NBHC. Servicing LP's assets included $15.3 billion of the Company's MSRs at June 30, 2008.

Exhibit 2
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Note 13—Other Assets

Other assets include the following:

	June 30, 2008	December 31, 2007
	(In thousands)	
Reimbursable servicing advances, net	$ 5,216,792	$ 3,981,703
Investments in FRB and FHLB stock	1,993,036	2,172,987
Real estate acquired in settlement of loans	952,329	807,843
Estimated amounts recoverable from pool mortgage insurance	895,925	555,803
Interest receivable	633,097	932,477
Receivables from custodial accounts	382,813	387,509
Capitalized software, net	379,172	385,276
Prepaid expenses	326,595	374,943
Cash surrender value of assets held in trust for deferred compensation plans	292,039	307,902
Cash surrender value of Company–owned life insurance	221,500	229,835
Margin accounts	219,369	669,391
Mortgage guaranty insurance tax and loss bonds	188,667	165,066
Securities broker–dealer receivables	87,489	203,206
Restricted cash	75,565	86,078
Receivables from sale of securities	12,720	98,021
Other	870,043	1,192,735
	$ 12,747,151	$ 12,550,775

The Company had pledged $0.01 billion of receivables from sale of securities to secure securities sold under agreements to repurchase at June 30, 2008 and December 31, 2007.

Exhibit 2
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Note 14—Deposit Liabilities

Deposit liabilities include the following:

	June 30, 2008	December 31, 2007
	(in thousands)	
Non–interest–bearing checking accounts	$ 729,152	$ 457,487
Retail savings and money market accounts:		
Retail	9,724,721	8,268,969
Brokered	1,715,642	3,159,124
Commercial money market accounts	219,015	892,085
Time deposits:		
Retail	31,095,961	25,119,310
Brokered	7,575,540	9,107,958
Commercial		
Premier business banking	502,437	545,118
Other	41,486	42,711
	543,923	587,829
	39,215,424	34,815,097
Company–administered custodial deposit accounts(1)	11,192,367	12,591,401
	62,796,321	60,184,163
Basis adjustment through application of hedge accounting	15,601	16,436
	$62,811,922	$60,200,599

(1) These accounts represent the portion of the investor custodial accounts administered by Countrywide that have been placed on deposit with Countrywide Bank, FSB ("Countrywide Bank" or the "Bank").

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Substantially all of the time deposits outstanding were interest-bearing. The contractual maturities of those deposits as of June 30, 2008, are shown in the following table:

	Time Deposit Maturities	Weighted Average Rate
	(dollar amounts in thousands)	
Quarter ending:		
September 30, 2008	$ 14,650,810	4.88%
December 31, 2008	9,523,683	4.71%
March 31, 2009	2,793,532	4.17%
June 30, 2009	7,400,499	3.98%
Total twelve months ending June 30, 2009	34,368,524	4.58%
Twelve months ending June 30,		
2010	1,833,014	4.32%
2011	872,346	4.53%
2012	193,727	4.79%
2013	190,460	4.93%
Thereafter	1,757,353	5.77%
	39,215,424	4.62%
Basis adjustment through application of hedge accounting	15,601	
	$ 39,231,025	

Note 15—Securities Sold Under Agreements to Repurchase

The Company routinely enters into short-term financing arrangements to sell securities under agreements to repurchase ("repurchase agreements"). The repurchase agreements are collateralized by mortgage loans and securities. All securities underlying repurchase agreements are held in safekeeping by broker-dealers or banks. All agreements are to repurchase the same or substantially identical securities.

At June 30, 2008, repurchase agreements were secured by $0.1 billion of trading securities, $4.9 billion of securities purchased under agreements to resell and securities borrowed, $0.5 billion of loans held for investment, $0.8 billion in investments in other financial instruments and $0.01 billion of other assets. At June 30, 2008, $3.2 billion of the pledged securities purchased under agreements to resell and securities borrowed related to amounts offset against securities sold under agreements to repurchase pursuant to master netting agreements.

At December 31, 2007, repurchase agreements were secured by $0.01 billion of mortgage loans held for sale, $15.4 billion of trading securities, $14.3 billion of securities purchased under agreements to resell and securities borrowed, $1.3 billion in loans held for investment, $0.1 billion in investments in other financial instruments and $0.01 billion of other assets. At December 31, 2007, $9.0 billion of the pledged securities purchased under agreements to resell and securities borrowed related to amounts offset against securities sold under agreements to repurchase pursuant to master netting agreements.

Note 16—Notes Payable

The following table summarizes notes payable:

	June 30, 2008	December 31, 2007
	(in thousands)	
Secured revolving lines of credit	$ —	$ 1,547,648
Unsecured revolving lines of credit	8,120,000	10,820,000
Unsecured bank loans	3,360,000	660,000
Borrowings from the Federal Reserve Bank	—	750,000
Federal Home Loan Bank advances	43,675,000	47,675,000
Medium–term notes:		
Floating–rate	8,196,680	10,779,722
Fixed–rate	7,022,293	8,221,445
	15,218,973	19,001,167
Asset–backed secured financings	3,438,391	9,453,478
Asset–backed secured financings at estimated fair value	1,212,252	—
Convertible debentures	4,000,000	4,000,000
Subordinated debt	1,082,726	1,067,010
Junior subordinated debentures	2,193,703	2,219,511
Other	34,546	33,599
	$82,335,591	$97,227,413

Secured Revolving Lines of Credit

The Company formed a special purpose entity (Park Monaco) to finance inventory with funding provided by a group of bank–sponsored conduits that were financed through the issuance of asset–backed commercial paper. The entity incurred interest based on prevailing money market rates approximating the cost of asset–backed commercial paper. On May 2, 2008, the Company repaid the outstanding balance, and on May 9, 2008, the Company terminated the facility.

For the six months ended June 30, 2008, the average borrowings under this facility totaled $0.5 billion and the weighted–average interest rate was 4.43%. For the six months ended June 30, 2007, the average borrowings under this facility totaled $0.7 billion and the weighted–average interest rate was 5.34%. At June 30, 2007, the weighted–average interest rate was 5.35%.

During 2007, the Company had a $4.0 billion master trust facility to finance Countrywide Warehouse Lending ("CWL") receivables backed by mortgage loans through the sale of such receivables to a multi–asset conduit finance company financed by issuing extendable maturity asset–backed commercial paper. At June 30, 2007, the Company had pledged $1.1 billion in loans held for investment to secure this facility. For the six months ended June 30, 2007, the average borrowings under this facility totaled $1.1 billion and the weighted–average interest rate was 5.38%. At June 30, 2007, the weighted–average interest rate was 5.39%. This facility was terminated during 2007.

Unsecured Revolving Lines of Credit and Unsecured Bank Loans

As of June 30, 2008, the Company had unsecured credit agreements (revolving credit facilities) with a group of commercial banks permitting the Company to borrow an aggregate maximum total

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amount of $11.5 billion. In August 2007, the Company borrowed $11.5 billion from these revolving credit facilities, of which $3.4 billion was converted to unsecured term bank loans with maturities through May 2009.

For the six months ended June 30, 2008, the average outstanding borrowings under the remaining revolving credit facilities totaled $10.0 billion and the weighted–average interest rate was 3.26%. At June 30, 2008, the weighted–average interest rate was 3.22%. No amount was outstanding under this facility at June 30, 2007. For the six months ended June 30, 2008, the average outstanding borrowings under the unsecured bank loan totaled $1.5 billion and the average interest rate was 3.63%. At June 30, 2008, the weighted average interest rate was 3.42%. On July 1, 2008, all amounts owing under these facilities were repaid and the facilities were terminated.

Backup Credit Facilities

As of June 30, 2008, the Company had pledged $7.4 billion and $0.03 billion of mortgage loans held for investment and MBS, respectively, to secure an unused borrowing facility with the FRB.

Federal Home Loan Bank Advances

During the six months ended June 30, 2008, the Company obtained $0.5 billion of fixed–rate advances from the FHLB, and repaid $4.5 billion of advances of which, $2.4 billion was fixed–rate. At June 30, 2008, the Company had pledged $58.8 billion and $12.4 billion respectively, of mortgage loans and investments in other financial instruments to secure its outstanding FHLB advances and enable future advances.

At December 31, 2007, the Company had pledged $62.6 billion and $13.4 billion, respectively, of mortgage loans and investments in other financial instruments to secure its outstanding FHLB advances and enable future advances.

Medium–Term Notes

During the six months ended June 30, 2008, the Company did not issue any medium–term notes and redeemed $4.1 billion of maturing medium–term notes.

As of June 30, 2008, $4.0 billion of foreign currency–denominated medium–term notes were outstanding. Such notes are denominated in Swiss Francs, Pounds Sterling, Canadian Dollars, Australian Dollars and Euros. These notes have been effectively converted to U.S. dollar–denominated debt through currency swaps.

Asset–Backed Secured Financings

The Company records certain mortgage loan securitization transactions as secured borrowings when they do not meet the accounting requirements for sale recognition. The securitization transactions accounted for as secured borrowings totaled $1.2 billion and $3.8 billion at June 30, 2008 and December 31, 2007, respectively. At June 30, 2008 and December 31, 2007, the Company had pledged mortgage loans held for sale with unpaid principal balances totaling $2.1 billion and $4.4 billion, respectively, to secure these borrowings.

In its market–making and trading activities, CSC would reacquire securities with embedded derivatives created in Countrywide loan sales activities. After reacquiring certain of those securities during 2007, the market for non–agency MBS was disrupted. Management subsequently concluded that certain securities it reacquired beginning in 2007 were no longer readily salable. When the Company

holds beneficial interests in its securitizations that include embedded derivatives for other–than market making purposes, the applicable accounting standards require that the transactions be re–characterized as financing transactions. As a result, liabilities of $3.4 billion and $5.6 billion and related Mortgage Loans Held in SPEs in loans held for investment were included on the Company's balance sheet at June 30, 2008 and December 31, 2007, respectively.

Junior Subordinated Debentures

As more fully discussed in Note 15—*Notes Payable* included in the consolidated financial statements of the 2007 Annual Report, the Company has issued junior subordinated debentures to non–consolidated subsidiary trusts. The trusts finance their holdings of the junior subordinated debentures by issuing Company–guaranteed capital securities.

The Company guarantees the indebtedness of CHL to one of its subsidiary trusts, Countrywide Capital III, which is excluded from the Company's consolidated financial statements. Following is summarized information for that trust:

	June 30, 2008	December 31, 2007
	(in thousands)	
Balance Sheets:		
Junior subordinated debentures receivable	$ 205,377	$ 205,356
Other assets	692	692
Total assets	$ 206,069	$ 206,048
Notes payable	$ 6,175	$ 6,175
Other liabilities	692	692
Company–obligated guaranteed redeemable capital trust pass–through securities	199,202	199,181
Shareholder's equity	—	—
Total liabilities and shareholder's equity	$ 206,069	$ 206,048

	Six Months Ended June 30, 2008	2007
	(in thousands)	
Statements of Operations:		
Revenues	$ 8,321	$ 8,321
Expenses	(8,321)	(8,321)
Provision for income taxes	—	—
Net earnings	$ —	$ —

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COUNTRYWIDE FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Maturities of Notes Payable

Maturities of notes payable were as follows:

	Principal, Premiums and Discounts			
	Unsecured Revolving Lines of Credit and Bank Loan(1)	All Other Notes Payable	Basis Adjustment	Total
	(in thousands)			
Quarter ending:				
September 30, 2008	$ —	$ 1,198,970	$ 62,889	$ 1,261,859
December 31, 2008	660,000	2,971,786	447,696	4,079,482
March 31, 2009	—	1,807,234	43,002	1,850,236
June 30, 2009	2,700,000	1,823,426	40,582	4,564,008
Total twelve months ending June 30, 2009	3,360,000	7,801,416	594,169	11,755,585
Twelve months ending June 30,				
2010	—	13,191,063	4,776	13,195,839
2011	6,580,000	18,478,647	348,947	25,407,594
2012	1,540,000	8,750,312	144,571	10,434,883
2013	—	4,950,117	762	4,950,879
Thereafter	—	16,527,421	63,390	16,590,811
Total	$ 11,480,000	$ 69,698,976	$ 1,156,615	$ 82,335,591

(1) On July 1, 2008, the Company terminated these credit facilities and repaid all the outstanding borrowings plus accrued interest and fees.

Note 17—Regulatory and Agency Capital Requirements

Countrywide Bank is regulated by the Office of Thrift Supervision ("OTS") and is therefore subject to OTS capital requirements. At June 30, 2008, the Bank's regulatory capital ratios and amounts and minimum required capital ratios for the Bank to maintain a "well capitalized" status are as follows based both on its actual balances and proforma balances giving effect to the $5.5 billion capital contribution made by the Company on July 2, 2008:

	Minimum Required(1)	Actual		Proforma(2)	
		Ratio	Amount	Ratio	Amount
	(dollar amounts in thousands)				
Tier 1 Capital	5.0%	6.9%	$8,071,716	11.1%	$13,601,716
Risk–Based Capital:					
Tier 1	6.0%	11.1%	$8,071,716	18.7%	$13,601,716
Total	10.0%	12.4%	$9,016,959	20.0%	$14,545,788

(1) Minimum required to qualify as "well capitalized."

(2) The proforma capital ratios reflect the cash contributed to the Bank. These ratios will decrease as we reinvest the proceeds of the capital contribution into interest earning assets with higher risk weightings.

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COUNTRYWIDE FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

The Bank is required by OTS regulations to maintain tangible capital of at least 1.5% of assets. However, the Bank is also required to maintain a tangible equity ratio of at least 2% to avoid being classified as "critically undercapitalized." Critically undercapitalized institutions are subject to the prompt corrective action provisions of the Financial Institution Reform Recovery and Enforcement Act of 1989. The Bank's tangible capital ratio was 6.9% and 8.0% at June 30, 2008 and December 31, 2007, respectively.

The OTS has prescribed that the Company and its affiliates are not authorized to receive, and the Bank is not authorized to pay the Company or its affiliates, capital distributions without receipt of prior written OTS non−objection.

The Company is also subject to U.S. Department of Housing and Urban Development, Fannie Mae, Freddie Mac and Government National Mortgage Association ("Ginnie Mae") net worth requirements. Management believes the Company is in compliance with those requirements.

Note 18—Supplemental Cash Flow Information

The following table presents supplemental cash flow information:

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(in thousands)	
Cash used to pay interest	$ 3,939,669	$ 5,356,090
Cash (refunded) used to pay income taxes	(704,031)	13,796
Non−cash investing activities:		
Transfer of loans from mortgage loans held for sale at lower of cost or estimated fair value to loans held for investment	(1,625,542)	(1,636,114)
Transfer of loans held for investment to mortgage loans held for sale	2,406,307	—
Transfer of real estate acquired in settlement of loans from loans receivable to other assets	865,234	407,302
Servicing resulting from transfers of financial assets	1,730,344	4,156,287
Retention of other financial instruments classified as available−for−sale in securitization transactions	15,852	1,829
Unrealized loss on available−for−sale securities, foreign currency translation adjustments, cash flow hedges and change in unfunded liability relating to defined benefit plans, net of tax	(865,677)	(118,672)
Remeasurement of financial assets and liabilities upon adoption of SFAS 159	34,249	—
Remeasurement of income taxes payable upon adoption of FIN 48	—	(12,719)
Decrease in Mortgage Loans Held in SPEs	2,189,191	—
Non−cash financing activities:		
Decrease in asset−backed secured financings	(4,728,777)	—

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Note 19—Net Interest Income

The following table summarizes net interest income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(in thousands)			
Interest income:				
Loans	$ 1,766,287	$ 2,150,060	$ 3,728,520	$ 4,270,105
Trading securities	142,203	341,932	356,067	660,884
Securities purchased under agreements to resell, securities borrowed and federal funds sold	172,497	613,410	394,117	1,274,689
Investments in other financial instruments	268,451	233,261	538,945	360,752
Other	113,108	160,981	251,456	285,196
Total interest income	2,462,546	3,499,644	5,269,105	6,851,626
Interest expense:				
Deposit liabilities	560,831	544,030	1,149,759	1,043,869
Securities sold under agreements to repurchase	208,975	911,104	519,774	1,801,771
Trading securities sold, not yet purchased	19,463	60,375	52,253	122,504
Notes payable	933,575	1,116,212	1,977,786	2,173,445
Other	83,751	139,927	182,262	251,104
Total interest expense	1,806,595	2,771,648	3,881,834	5,392,693
Total net interest income	$ 655,951	$ 727,996	$ 1,387,271	$ 1,458,933

Note 20—Restructuring Charges

During the third quarter of 2007, the Company initiated a program to reduce costs and improve operating efficiencies in response to lower mortgage market origination volumes and other market conditions. As part of this plan, the Company expected to incur lease and other contract termination costs. Management recorded restructuring charges totaling $144.6 million in 2007 and recorded an additional $16.1 million in the first six months of 2008. Specific actions taken in 2007 included reducing the workforce by approximately 11,000 and the closure of 259 branches. These reductions occurred in most geographic locations and levels of the organization. The restructuring charges were recorded in the "Other" segment. During the first six months of 2008, the specific actions included reducing the workforce by approximately 1,500.

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The following table summarizes the restructuring liability balance, recorded in accounts payable and accrued liabilities at June 30, 2008, and related activity during the six months ended June 30, 2008:

	Balance December 31, 2007	Additions	Reversals	Utilized Cash	Utilized Non-Cash	Balance June 30, 2008
			(in thousands)			
Severance and benefits	$ 2,959	$ 3,264	$ —	$ (6,223)	$ —	$ —
Lease termination costs	45,399	10,581	—	(24,634)	(5,884)	25,462
Other costs	—	2,228	—	—	(2,228)	—
	$ 48,358	$16,073	$ —	$(30,857)	$ (8,112)	$25,462

Note 21—Pension Plans

The Company provides retirement benefits to its employees using a variety of plans. For employees hired prior to January 1, 2006, the Company has a defined benefit pension plan (the "Pension Plan"). For employees hired after December 31, 2005, the Company makes supplemental contributions to employee 401(k) Plan accounts.

Net periodic benefit cost for the Pension Plan during the three and six months ended June 30, 2008 and 2007, includes the following components:

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
	(in thousands)			
Service cost	$17,404	$19,400	$ 34,808	$ 41,479
Interest cost	7,158	6,355	14,316	12,337
Expected return on plan assets	(5,950)	(5,483)	(11,900)	(10,974)
Amortization of prior service cost	87	87	174	174
Recognized net actuarial loss	—	217	—	217
Net periodic benefit cost	$18,699	$20,576	$ 37,398	$ 43,233

Note 22—Segments and Related Information

The Company has five business segments: Mortgage Banking, Banking, Capital Markets, Insurance and Global Operations.

The Mortgage Banking Segment is comprised of three sectors: Loan Production, Loan Servicing and Loan Closing Services.

The Loan Production Sector originates prime and subprime loans for sale or securitization through a variety of channels on a national scale. Historically, mortgage banking loan production has occurred in CHL. Over the past several years, the Company has been transitioning this production to its bank subsidiary, Countrywide Bank. Effective January 1, 2008, the Company's production channels have moved into the Bank, completing the migration of substantially all of Countrywide's loan production activities from CHL to the Bank. During the six months ended June 30, 2008, over 97% of Countrywide's mortgage loan production occurred in Countrywide Bank. The mortgage loan production, the related balance sheet and the income relating to the holding and sale of these loans is

Exhibit 2

included in the Mortgage Banking Segment regardless of whether the activity occurred in CHL or the Bank.

The Loan Production Sector is comprised of three lending channels:

- Retail Channel sources mortgage loans primarily from consumers through the Company's retail branch network and call centers, as well as through real estate agents and homebuilders

- Wholesale Lending Channel sources mortgage loans primarily from mortgage brokers

- Correspondent Lending Channel purchases mortgage loans from other mortgage lenders, including financial institutions, commercial banks, savings and loan associations, home builders and credit unions.

The Loan Servicing Sector includes investments in MSRs, retained interests including senior and mezzanine mortgage–backed securities which remain unsold from prior securitizations, the Mortgage Banking investment loan portfolio as well as the Company's loan servicing operations and subservicing for other domestic financial institutions. Subsequent to sale, adjustments to the liability for representations and warranties are included in this sector. The Loan Closing Services Sector is comprised of the LandSafe companies, which provide credit reports, appraisals, title reports and flood determinations to the Company's Loan Production Sector, as well as to third parties.

The Banking Segment includes Banking Operations—primarily the investment and fee–based activities of Countrywide Bank—together with the activities of Countrywide Warehouse Lending and certain loans held for investment and owned by Countrywide Home Loans. Banking Operations invests in mortgage loans sourced from the Loan Production Sector and mortgage loans and MBS purchased from non–affiliated entities. Countrywide Warehouse Lending provides third–party mortgage lenders with temporary financing secured by mortgage loans.

The Capital Markets Segment includes the operations of CSC, a registered broker–dealer specializing in the mortgage securities market. It also includes the operations of Countrywide Asset Management Corporation, Countrywide Commercial Real Estate Finance Inc., Countrywide Servicing Exchange, Countrywide Alternative Investments Inc., CSC Futures Inc., Countrywide Capital Markets Asia (H.K.) Limited, CAA Management Inc., Countrywide Sunfish Management LLC and Countrywide Derivative Products, Inc.

The Insurance Segment includes Balboa Insurance Group, a national provider of property, casualty, life, disability and credit insurance; Balboa Reinsurance Company, a primary mortgage reinsurance company; and Countrywide Insurance Services, a national insurance agency offering a specialized menu of insurance products directly to consumers.

The Global Operations Segment includes Countrywide International Technology Holdings Limited, a licensor of loan origination processing, servicing and residential real estate value assessment technology; CFC India Private Limited, a provider of call center, data processing and information technology related services; and CFC International (Processing Services), Limited, located in Costa Rica, a provider of call center and data processing services.

Segment selection was based upon internal organizational structures, and the process by which these operations are managed and evaluated, including how resources are allocated to the operations. Certain amounts reflected in the prior period have been adjusted to conform to the current period presentation.

Intersegment transactions are generally recorded on an arms–length basis. However, prior to October 2007, the fulfillment fees paid by Banking Operations to the Production Sector for origination costs incurred on mortgage loans funded by Banking Operations were generally determined on an incremental cost basis, which may be less than the fees that Banking Operations would pay to a third party.

COUNTRYWIDE FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Financial highlights by operating segments are as follows:

	Three Months Ended June 30, 2008									
	Mortgage Banking									
	Loan Production	Loan Servicing	Closing Services	Total	Banking	Capital Markets	Insurance	Global Operations	Other	Total Consolidated
	(in thousands)									
Revenues:										
External	$ 765,710	$ (1,115,865)	$ 98,888	$ (251,267)	$ (1,827,393)	$ (87,699)	$ 534,364	$ 12,041	$ (2,884)	$ (1,622,838)
Intersegment	(3,078)	84,692	(480)	81,134	(57,108)	(295)	(1,812)	30,099	(52,018)	—
Total Revenues	$ 762,632	$ (1,031,173)	$ 98,408	$ (170,133)	$ (1,884,501)	$ (87,994)	$ 532,552	$ 42,140	$ (54,902)	$ (1,622,838)
Pre–tax Earnings (Loss)	$ (135,175)	$ (1,406,754)	$ 33,115	$ (1,508,814)	$ (2,145,667)	$ (170,034)	$ 12,042	$ 11,723	$ (15,086)	$ (3,815,836)
Total Assets at Period End	$ 14,203,239	$39,731,833	$412,477	$54,347,549	$107,451,467	$5,878,284	$4,298,360	$ 259,240	$(158,406)	$ 172,076,494

	Three Months Ended June 30, 2007									
	Mortgage Banking									
	Loan Production	Loan Servicing	Closing Services	Total	Banking	Capital Markets	Insurance	Global Operations	Other	Total Consolidated
	(in thousands)									
Revenues:										
External	$ 1,499,331	$ (220,185)	$ 89,397	$ 1,368,543	$ 490,740	$ 223,744	$ 390,742	$ 7,165	$ 67,463	$ 2,548,397
Intersegment	14,366	260,886	(138)	275,114	(202,969)	21,013	(1,925)	21,733	(112,966)	—
Total Revenues	$ 1,513,697	$ 40,701	$ 89,259	$ 1,643,657	$ 287,771	$ 244,757	$ 388,817	$ 28,898	$ (45,503)	$ 2,548,397
Pre–tax Earnings (Loss)	$ 492,139	$ (200,798)	$ 28,261	$ 319,602	$ 128,910	$ 109,510	$ 98,721	$ 6,688	$ 1,267	$ 664,698
Total Assets at Period End	$32,873,872	$33,492,428	$333,244	$66,699,544	$93,464,293	$57,457,168	$3,342,309	$ 247,572	$(5,626,980)	$ 215,583,906

Included in the columns above labeled "Other" are the holding company activities including restructuring charges of $1.5 million during the three months ended June 30, 2008 and certain reclassifications to conform management reporting to the consolidated financial statements.

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COUNTRYWIDE FINANCIAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

	Six Months Ended June 30, 2008									
	Mortgage Banking									
	Loan Production	Loan Servicing	Closing Services	Total	Banking	Capital Markets	Insurance	Global Operations	Other	Total Consolidated
	(in thousands)									
Revenues:										
External	$ 1,879,048	$ (1,709,013)	$196,115	$ 366,150	$ (2,393,666)	$ (5,786)	$1,091,226	$ 24,467	$ (26,355)	$ (943,964)
Intersegment	(12,098)	197,914	(1,014)	184,802	(141,166)	(763)	(3,927)	59,014	(97,960)	—
Total Revenues	$ 1,866,950	$ (1,511,099)	$195,101	$ 550,952	$ (2,534,832)	$ (6,549)	$1,087,299	$ 83,481	$(124,315)	$ (943,964)
Pre-tax Earnings (Loss)	$ 97,200	$ (2,224,300)	$ 66,290	$ (2,060,810)	$ (3,106,038)	$ (169,037)	$ 47,543	$ 22,702	$ (42,423)	$ (5,308,063)
Total Assets at Period End	$14,203,239	$39,731,833	$412,477	$54,347,549	$107,451,467	$5,878,284	$4,298,360	$ 259,240	$(158,406)	$ 172,076,494

	Six Months Ended June 30, 2007									
	Mortgage Banking									
	Loan Production	Loan Servicing	Closing Services	Total	Banking	Capital Markets	Insurance	Global Operations	Other	Total Consolidated
	(in thousands)									
Revenues:										
External	$ 2,660,943	$ (348,728)	$174,873	$ 2,487,088	$ 1,110,188	$ 451,535	$ 761,908	$ 11,043	$ 132,411	$ 4,954,173
Intersegment	16,897	508,385	(138)	525,144	(393,156)	53,878	(3,375)	38,305	(220,796)	—
Total Revenues	$ 2,677,840	$ 159,657	$174,735	$ 3,012,232	$ 717,032	$ 505,413	$ 758,533	$ 49,348	$ (88,385)	$ 4,954,173
Pre-tax Earnings (Loss)	$ 662,793	$ (301,104)	$ 58,217	$ 419,906	$ 417,004	$ 241,718	$ 278,379	$ 10,694	$ (2,208)	$ 1,365,493
Total Assets at Period End	$32,873,872	$33,492,428	$333,244	$66,699,544	$93,464,293	$57,457,168	$3,342,309	$ 247,572	$(5,626,980)	$ 215,583,906

Included in the columns above labeled "Other" are the holding company activities including restructuring charges of $16.1 million during the six months ended June 30, 2008 and certain reclassifications to conform management reporting to the consolidated financial statements.

Note 23—Summarized Financial Information

Summarized financial information for Countrywide Financial Corporation (parent only) and subsidiaries is as follows:

	June 30, 2008				
	Countrywide Financial Corporation (Parent Only)	Countrywide Home Loans, Inc. (Consolidated)	Other Subsidiaries	Eliminations	Consolidated
			(in thousands)		
Balance Sheets:					
Mortgage loans held for sale	$ —	$ 1,684,003	$ 10,133,395	$ (1,036)	$ 11,816,362
Trading securities, at estimated fair value	168,772	143,085	881,144	—	1,193,001
Securities purchased under agreements to resell, securities borrowed and federal funds sold	—	250,000	9,278,885	(2,879,799)	6,649,086
Loans held for investment, net	620,476	16,167,473	77,463,414	(20,373)	94,230,990
Investments in other financial instruments, at estimated fair value	507,524	750,819	17,611,785	(22,131)	18,847,997
Mortgage servicing rights, at estimated fair value	—	16,371,301	2,031,089	—	18,402,390
Investments in subsidiaries	12,358,342	—	6,579	(12,364,921)	—
Other assets	22,907,320	20,966,276	12,294,253	(35,231,181)	20,936,668
Total assets	$ 36,562,434	$ 56,332,957	$ 129,700,544	$ (50,519,441)	$ 172,076,494
Deposit liabilities	$ —	$ —	$ 63,362,940	$ (551,018)	$ 62,811,922
Securities sold under agreements to repurchase	556,959	800,517	5,062,814	(2,875,710)	3,544,580
Notes payable	16,245,277	23,168,348	43,675,000	(753,034)	82,335,591
Other liabilities	9,340,130	29,916,958	7,661,108	(33,953,863)	12,964,333
Equity	10,420,068	2,447,134	9,938,682	(12,385,816)	10,420,068
Total liabilities and equity	$ 36,562,434	$ 56,332,957	$ 129,700,544	$ (50,519,441)	$ 172,076,494

	Six Months Ended June 30, 2008				
	Countrywide Financial Corporation (Parent Only)	Countrywide Home Loans, Inc. (Consolidated)	Other Subsidiaries	Eliminations	Consolidated
			(in thousands)		
Statements of Operations:					
Revenues	$ (33,457)	$ (728,500)	$ 431,550	$ (613,557)	$ (943,964)
Expenses	12,542	1,126,118	3,800,794	(575,355)	4,364,099
Benefit for income taxes	(17,663)	(701,057)	(1,350,791)	(15,400)	(2,084,911)
Equity in net loss of subsidiaries	(3,194,816)	—	—	3,194,816	—
Net loss	$(3,223,152)	$ (1,153,561)	$(2,018,453)	$ 3,172,014	$(3,223,152)

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COUNTRYWIDE FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

	December 31, 2007				
	Countrywide Financial Corporation (Parent Only)	Countrywide Home Loans, Inc. (Consolidated)	Other Subsidiaries	Eliminations	Consolidated
			(in thousands)		
Balance Sheets:					
Mortgage loans held for sale	$ 67	$ 5,439,813	$ 6,208,511	$ 32,883	$ 11,681,274
Trading securities, at estimated fair value	—	233,046	21,299,559	(189,998)	21,342,607
Securities purchased under agreements to resell, securities borrowed and federal funds sold	—	1,250,000	12,126,762	(3,735,883)	9,640,879
Loans held for investment, net	582,760	18,362,522	79,071,775	(16,344)	98,000,713
Investments in other financial instruments, at estimated fair value	549,221	2,949,971	22,318,467	—	25,817,659
Mortgage servicing rights, at estimated fair value	—	18,573,055	385,125	—	18,958,180
Investments in subsidiaries	16,953,677	—	6,265	(16,959,942)	—
Other assets	27,019,705	22,861,754	14,145,494	(41,101,341)	22,925,612
Total assets	$ 45,105,430	$ 69,670,161	$ 155,561,958	$ (61,970,625)	$ 208,366,924
Deposit liabilities	$ —	$ —	$ 61,184,312	$ (983,713)	$ 60,200,599
Securities sold under agreements to repurchase	440,000	2,228,004	19,307,168	(3,757,010)	18,218,162
Notes payable	19,156,790	31,619,553	48,452,915	(2,001,845)	97,227,413
Other liabilities	10,852,769	32,243,730	13,238,393	(38,270,013)	18,064,879
Equity	14,655,871	3,578,874	13,379,170	(16,958,044)	14,655,871
Total liabilities and equity	$ 45,105,430	$ 69,670,161	$ 155,561,958	$ (61,970,625)	$ 208,366,924

	Six Months Ended June 30, 2007				
	Countrywide Financial Corporation (Parent Only)	Countrywide Home Loans, Inc. (Consolidated)	Other Subsidiaries	Eliminations	Consolidated
			(in thousands)		
Statements of Operations:					
Revenues	$ (51,127)	$ 3,068,101	$ 2,530,976	$ (593,777)	$ 4,954,173
Expenses	6,795	2,541,297	1,608,111	(567,523)	3,588,680
(Benefit) provision for income taxes	(19,264)	160,514	313,397	(8,203)	446,444
Equity in net earnings of subsidiaries	957,707	—	—	(957,707)	—
Net earnings	$ 919,049	$ 366,290	$ 609,468	$ (975,758)	$ 919,049

Note 24—Borrower and Investor Custodial Accounts

As of June 30, 2008 and December 31, 2007, the Company managed $16.5 billion and $19.2 billion, respectively, of borrower and investor custodial cash accounts. These custodial accounts relate to the Company's mortgage servicing activities. Of these amounts, $11.2 billion and $12.6 billion, respectively, were deposited at the Bank, and included in the Company's deposit liabilities as custodial deposit accounts. The remaining balances were deposited with other depository institutions and are not recorded on the Company's balance sheets.

Note 25—Loan Commitments

The following table summarizes the Company's outstanding contractual loan commitments for the periods indicated:

	June 30, 2008	December 31, 2007
	(in thousands)	
Commitments to fund mortgage loans	$18,987,936	$23,940,795
Commitments to fund commercial real estate loans	—	480,872
Undisbursed home equity lines of credit	5,249,554	9,073,370
Undisbursed construction loans	1,058,994	714,896
Undisbursed warehouse lines of credit	936,713	938,089

Note 26—Legal Proceedings

The Company has been named as a defendant in various legal proceedings involving matters generally incidental to its businesses and also in the following matters.

Equity and Debt Securities Class Action Matters

The Company has been named as one of the defendants in four putative securities class action cases relating to its equity and debt securities. Two cases have been filed in the U.S. District Court for the Central District of California. One of those cases (entitled In re Countrywide Financial Corp. Securities Litigation) was filed by certain New York state and municipal pension funds ("NY Funds") ostensibly on behalf of purchasers of the Company's common stock and certain other equity and debt securities; the other case (entitled Argent Classic Convertible Arbitrage Fund L.P. v. Countrywide Financial Corp. et al.) was filed ostensibly on behalf of purchasers of certain Series A and B debentures issued in various private placements pursuant to a May 16, 2007 offering memorandum. Both actions assert claims under the antifraud provisions of the federal securities laws. The NY Funds action also asserts claims under the Securities Act of 1933 relating to the public offering of certain securities. Both complaints allege, among other things, that the Company made misstatements (including in certain SEC filings) concerning the nature and quality of its loan underwriting practices and its financial results during the relevant period. These actions seek unspecified compensatory damages, among other remedies. Defendants have filed motions to dismiss these actions.

The Company also has been named as one of the defendants in two class action cases concerning the Company's common stock pending in Los Angeles Superior Court. One case (entitled Layne v. Countrywide Financial Corp., et al.) was filed ostensibly on behalf of a putative class of participants in the Company's 401(k) retirement plan whose retirement account contributions were voluntarily

matched by the Company in the form of shares of Countrywide common stock. This case alleges misstatements in a May 11, 2007 registration statement that the Company filed with the SEC in connection with these shares. The other case (entitled Teratsonian v. Countrywide Financial Corp. et al.) was filed ostensibly on behalf of a putative class of Countrywide employees who received Countrywide common stock under the Company's 2006 equity incentive plan and alleges misstatements in an August 8, 2006 registration statement filed in connection with these shares. The alleged misstatements concern, among other things, the nature and quality of the Company's loan underwriting practices and its financial results during the relevant period. Both cases assert claims under the Securities Act of 1933. The Company intends to ask the Court to dismiss these matters on various grounds.

Mortgage–Backed Securities Related Matters

The Company has been named as one of the defendants in two putative securities class actions filed in Los Angeles Superior Court relating to the Company's public offering of various mortgage–backed securities. One lawsuit (entitled Luther v. Countrywide Home Loans Servicing LP, et al.) is ostensibly brought on behalf of a class of purchasers of certain mortgage pass–through certificates for which CWALT, Inc. and various issuing trusts filed registration statements; the other case (entitled Washington State Plumbing & Pipefitting Pension Trust v. Countrywide Financial Corporation, et al.) is ostensibly brought on behalf of purchasers of such CWALT, Inc. mortgage pass–through certificates, as well as various other mortgage–backed securities registered by certain other Company subsidiaries. Both lawsuits allege, among other things, that the mortgage loans underlying these securities were not originated in accordance with the underwriting guidelines and processes described in the prospectus supplements issued in connection with the sale of such securities. The complaints seek unspecified compensatory damages, among other relief. In addition, the Company may have indemnification obligations arising from other mortgage–backed securities transactions to the purchasers of those securities or to other parties.

Shareholder Derivative Matters

The Company has been named as a nominal defendant in two shareholder derivative actions in California. These actions are brought ostensibly on the Company's behalf and do not seek to recover any amounts from the Company. One action (entitled In re Countrywide Financial Corp. Derivative Litigation) was filed by the Arkansas Teachers Retirement System and certain other state and municipal pension funds in the U.S. District Court for the Central District of California (Arkansas); the other action (entitled In re Countrywide Financial Corp. Shareholder Derivative Litigation) was filed by Robert Garber in Los Angeles Superior Court. Both complaints allege, among other things, breaches of fiduciary duty by Company officers and directors, and misstatements in certain SEC filings concerning the Company's loan underwriting practices, financial condition and prospects. After the announcement of the Bank of America/Countrywide merger, plaintiffs in both actions amended their complaints to include merger–related class action claims filed ostensibly on behalf of a putative class of all Countrywide shareholders. The federal court has stayed those merger–related class claims in favor of substantially identical claims pending in the Delaware Court of Chancery, as discussed below in Merger–Related Class Action Matters, and the Los Angeles Superior Court has stayed the entire action in favor of the substantially identical claims pending in California federal court and the Delaware Chancery Court. The federal court has granted in part and denied in part the defendants' motions to dismiss the Arkansas case. Defendants have also moved for judgment on the pleadings seeking

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dismissal of the Arkansas matter on the grounds that plaintiffs may no longer pursue derivative claims on behalf of the Company because they are no longer Countrywide shareholders after the merger with Bank of America. That motion is pending.

The Company also has been named as a nominal defendant in a consolidated shareholder derivative action in the U.S. District Court for the District of Delaware (entitled In re Countrywide Financial Corp. Derivative Litigation) that was filed by the International Brotherhood of Electrical Workers. The complaint alleges that certain Company officers and directors breached their fiduciary duty by causing the Company to repurchase its stock at allegedly inflated prices in late 2006 and the spring of 2007. Defendants have moved to dismiss the case on various grounds, including on the grounds that plaintiffs may no longer pursue derivative claims on behalf of the Company because they are no longer Countrywide shareholders.

A shareholder derivative action (entitled Seymour v. Samuels, et al.) has been filed ostensibly on behalf of Countrywide Capital V ("CCV"), a Delaware trust, against the Company and certain other defendants in the Delaware Court of Chancery by an alleged purchaser of CCV preferred trust securities. The complaint alleges that CCV was harmed when it purchased certain debentures from the Company whose value the complaint claims the Company had artificially inflated. The Company intends to ask the Court to dismiss this matter on various grounds.

The Company also has been named as one of the defendants in shareholder derivative lawsuits ostensibly brought on behalf of the Federal Home Loan Mortgage Corp. ("Freddie Mac") (entitled Bassman v. Syron, et. al.) in the U.S. District Court for the Southern District of New York, and on behalf of the Federal National Mortgage Association ("Fannie Mae") (entitled Agnes v. Raines, et al.) in the U.S. District Court for the District of Columbia. These complaints allege, among other things, that the Company sold loans to these government–sponsored entities that had not been properly appraised and that the Company misrepresented the appraised value of the loans it sold in the secondary mortgage market. The Company intends to ask the courts in these matters to dismiss them on various grounds.

ERISA Class Action Matters

Eighteen class action complaints have been filed against the Company and certain other defendants alleging violations of the Employee Retirement Income Security Act of 1974 ("ERISA") in the U.S. District Court for the Central District of California. The complaints principally contend that it was not prudent for the Company to permit employees participating in the Countrywide 401(k) retirement plan to continue to invest in the Company's common stock during a roughly two year period ending in September 2007. The Court has stayed all but the first–filed ERISA class action case (entitled Alvidres v. Countrywide Financial Corp., et al.). The Court has declined to grant defendants' motions to dismiss the complaint in the Alvidres matter, and has granted plaintiff's motion to certify the case as a class action on behalf of current participants in the Company 401(k) plan.

Indenture Trustee Suit

The Company has been named as a defendant in a case filed in the Delaware Court of Chancery by the Bank of New York Mellon in its capacity as indenture trustee with respect to certain Series B floating rate convertible senior debentures due 2037 having a principal amount of $2 billion and issued by the Company under an indenture dated as of May 22, 2007 (the "Indenture"). The complaint alleges, among other things, that the Company's merger with Bank of America constituted a

"Fundamental Change" as defined in the Indenture which allegedly requires the Company to repurchase such of the debentures as are surrendered for payment in accordance with the terms of the Indenture and seeks, among other relief, an order requiring the Company to repurchase such debentures.

Merger–Related Class Action Matters

Various class action lawsuits and claims relating to the Company's merger with Bank of America have been filed against the Company and other defendants in Los Angeles Superior Court, the U.S. District Court for the Central District of California, and the Delaware Court of Chancery on behalf of a putative class of all Countrywide shareholders. These lawsuits allege, among other things, that the Company's directors breached their fiduciary duties by entering into the merger agreement with Bank of America. The merger–related claims in the California courts have been stayed in favor of the Delaware litigation (entitled In re Countrywide Financial Corp. Shareholder Litigation), which has been settled in principle. The proposed settlement is subject to court approval.

Regulatory Matters

From time to time the Company is subject to investigations and reviews in the ordinary course of business involving various regulatory agencies, including the SEC and various state attorneys general, and in connection therewith such regulatory agencies request materials from us pertaining to our business operations and other matters. It is the Company's policy to fully cooperate with such regulatory investigations and reviews, and, where appropriate, to take remedial action.

Certain state and local government officials have filed proceedings against the Company, including lawsuits brought by the state attorneys general of California, Connecticut, Florida and Illinois in their respective state courts. These lawsuits allege, among other things, that the Company violated state consumer protection laws by allegedly engaging in deceptive marketing practices designed to increase the volume of loans it originated and then sold into the secondary market. These lawsuits seek, among other remedies, monetary penalties and, in the Connecticut and Illinois actions, rescission or repurchase of mortgage loans made to Connecticut and Illinois consumers and in the Illinois action an injunction against foreclosure proceedings in certain circumstances. The Director of the Washington State Department of Financial Institutions also has commenced an administrative proceeding against the Company alleging, among other things, that the Company did not provide borrowers with certain required disclosures and that the loan products made available to Washington borrowers of protected races or ethnicities were less favorable than those the Company made available to other, similarly situated borrowers. This proceeding seeks, among other things, a monetary fine and an order barring the Company from making consumer loans in the State for five years.

The Company also has responded to subpoenas from the SEC, which has advised the Company that it is conducting a formal investigation. Beginning in March 2008, certain news media reported that numerous industry participants, including the Company, were subject to an investigation by the Federal Bureau of Investigation ("FBI") in connection with mortgage business practices. The Department of Justice ("DOJ") has stated to the Company that the DOJ cannot confirm or deny whether the FBI is conducting an investigation of the Company.

The Federal Trade Commission has issued Civil Investigative Demands for Documentary Material and for Written Interrogatories and Report ("CIDs"). The CIDs direct the Company to provide various documents and items of information in connection with an investigation by the agency regarding

whether any laws administered by the Commission have been violated in connection with certain aspects of the Company's loan servicing activities. The Company is cooperating with the investigation.

Although management believes it has meritorious defenses to each of these proceedings and intends to defend them vigorously, it is difficult to predict the resulting outcome of such proceedings, particularly where investigations and other proceedings are in their early stages. Given the inherent difficulty in predicting the outcome of legal proceedings, management cannot estimate losses or ranges of losses for legal proceedings where there is only a reasonable possibility that a loss may be incurred, such as those discussed above. The Company provides for potential losses that may arise out of legal proceedings to the extent such losses are deemed probable and can be estimated. Although the ultimate outcome of the Company's legal proceedings discussed above cannot be ascertained at this time, management believes that any resulting liability will not materially affect its consolidated financial position; such resolution, however, could be material to its operating results for a particular future period depending upon the outcome of the proceedings and the operating results for a particular period. This assessment is based, in part, on the existence of insurance coverage.

Note 27—Recently Issued Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), Business Combinations, ("SFAS 141(R)"). SFAS 141(R) expanded the scope of SFAS 141 to all business combinations which previously applied only to business combinations for which control was obtained by transferring consideration. Under SFAS 141(R), the acquisition date is the date at which control is obtained, requiring the acquirer to recognize and measure the fair value of the acquiree as a whole, and the assets acquired and liabilities assumed at their full fair value as of that date, regardless of the percentage ownership in the acquiree. The Company has determined that it will adopt SFAS 141(R) on its effective date of January 1, 2009 and the financial impact, if any, upon adoption is not expected to be significant.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51, ("SFAS 160"). SFAS 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as a separate component of equity in the consolidated financial statements and requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Under SFAS 160, expanded disclosures are required to identify and distinguish between the interests of the parent's owners and the interests of the noncontrolling owners of a subsidiary. The Company has determined that it will adopt SFAS 160 on its effective date of January 1, 2009 and the financial impact, if any, upon adoption is not expected to be significant.

In February 2008, the FASB issued FASB Staff Position No. FSP 140-3, Accounting for Transfers of Financial Assets and Repurchasing Transactions, ("FSP 140-3"). FSP 140-3 addresses accounting for repurchase agreements related to previously transferred financial assets when the repurchase arrangement is between the same parties as the original transfer. This FSP presumes that an initial transfer of a financial asset and a repurchase agreement are considered part of the same arrangement under Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, ("SFAS 140"). However, if certain criteria are met, the initial transfer and repurchase financing shall not be evaluated as a linked transaction and instead

should be evaluated separately under SFAS 140. This FSP is effective for financial statements issued for fiscal years beginning after November 15, 2008 and shall be applied prospectively to initial transfers and repurchase financings for which the initial transfer is executed on or after the beginning of the fiscal year this FSP is initially applied. The Company has not yet determined the financial impact, if any, upon adoption.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment to FASB Statement No. 133, ("SFAS 161"). SFAS 161 was issued to improve transparency of a company's derivative instruments and hedging activities by requiring qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosure about credit-risk related features in derivative agreements. This Statement also requires that the overall objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. SFAS 161 is effective prospectively for financial statements beginning after November 15, 2008.

In May 2008, the FASB issued FASB Staff Position APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement), ("FSP APB 14-1"). FSP APB 14-1 applies to convertible debt securities that, upon conversion, may be settled by the issuer fully or partially in cash. Under this FSP, the issuer must segregate the convertible debt instrument into two components: (1) a debt component, representing the issuer's contractual obligation to pay principal and interest and (2) an equity component, representing the holder's option to convert the debt security into equity of the issuer. The proceeds are allocated between the liability and the equity components. First, the liability component is measured based on the fair value of a similar debt instrument with no equity conversion feature. Any remaining proceeds are allocated to the equity component and recorded as a discount on the debt. The debt discount is amortized as additional interest expense using the interest method over the expected life of the debt. This FSP is effective for financial statements issued beginning after December 15, 2008 and interim periods within that fiscal year. The FSP is to be applied retrospectively to all prior periods presented. The Company has preliminary determined that approximately $200 million of the proceeds from its convertible debt issuance in 2007 will be allocated to the equity conversion feature and represent a discount on that debt.

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

As used in this Report, references to "we," "our," "the Company" or "Countrywide" refer to Countrywide Financial Corporation and its consolidated subsidiaries unless otherwise indicated. This discussion includes forward–looking statements which are subject to certain risks and uncertainties as discussed in the section *Factors That May Affect Our Future Results* of this Report.

Overview

This section gives an overview of critical items that are discussed in more detail throughout Management's Discussion and Analysis of Financial Condition and Results of Operations.

Merger with Bank of America Corporation

On July 1, 2008, Countrywide Financial Corporation completed its merger with Red Oak Merger Corporation, a wholly–owned subsidiary of Bank of America Corporation, pursuant to the terms of the previously announced Agreement and Plan of Merger, dated as of January 11, 2008. Red Oak Merger Corporation has subsequently been renamed Countrywide Financial Corporation. Under the terms of the Merger agreement, Countrywide shareholders received 0.1822 of a share of Bank of America Corporation common stock in exchange for one share of Countrywide common stock, plus an amount of cash in lieu of any fractional share. All shares of the Company's 7.25% Series B Non–Voting Convertible Preferred Stock were cancelled. Trading of the Company's common stock was ceased and the Company's common stock has been delisted from the New York Stock Exchange. As a result of the Merger, the Company's principal executive officer, principal financial officer, other executive officers and the members of the Company's Board of Directors resigned and were replaced by individuals appointed by Bank of America.

As a result of Bank of America's acquisition of Countrywide, we are omitting certain information as allowed by general instruction H of Form 10–Q. Specifically, we are omitting Part I, Item 3, Quantitative and Qualitative Disclosures About Market Risk; Part II, Item 2, Changes in Securities (Unregistered Sales of Equity Securities and Use of Proceeds) and Part II, Item 4, Submission of Matters to a Vote of Security Holders. We have also abbreviated Management's Discussion and Analysis of Financial Condition and Results of Operations as allowed by general instruction H.

Results of Operations

Following is a summary of our results of operations for the quarters ended June 30, 2008 and 2007:

	Quarters Ended June 30,	
	2008	2007
	(dollar amounts in thousands, except per share data)	
Revenues	$ (1,622,838)	$ 2,548,397
Net (loss) earnings	$ (2,330,099)	$ 485,068
Diluted (loss) earnings per share	$ (4.07)	$ 0.81
Total assets at period end	$172,076,494	$215,583,906

The results for the quarter ended June 30, 2008 were primarily due to high credit–related charges arising from continuing economic weakness and declining values of the real estate securing our mortgage loans. Such factors continue to be reflected in our current experience and expectations for increased levels of mortgage delinquencies, defaults and loss severities.

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Following is a summary of key credit quality and performance indicators at and for the periods indicated:

	Quarters Ended June 30, 2008	Quarters Ended June 30, 2007	% Change
	(dollar amounts in thousands)		
Key Credit Quality & Performance Indicators			
Provision for:			
Representations and warranties	$ 755,058	$ 73,353	929%
Corporate guarantees	1,921	2,277	(16%)
Credit losses (1)	2,328,744	297,387	683%
Impairment of credit–sensitive retained interests	64,351	416,673	(85%)
Realized losses on available–for–sale investment securities	467,808	4,889	N/M
Provision for reinsurance claims	201,088	15,963	N/M
	$ 3,818,970	$ 810,542	371%
Losses Charged to Reserves and Credit–Sensitive Retained Interests During the Period:			
Representations and warranties	$ 154,071	$ 6,784	N/M
Losses charged to corporate guarantees	1,176	1,296	(9%)
Net loan charge–offs	929,974	154,387	502%
Losses absorbed by credit–sensitive retained interests	1,196,349	244,513	389%
	$ 2,281,570	$ 406,980	461%
Loans Held for Investment at period end (2)	$ 95,828,249	$ 74,569,443	29%
Nonperforming assets at period end:			
Nonaccrual loans (3)	$ 6,163,312	$ 1,266,733	387%
Foreclosed real estate	952,329	546,585	74%
Total nonperforming assets	$ 7,115,641	$ 1,813,318	292%
Troubled debt restructurings on accrual status	$ 1,120,136	$ —	N/M
Carrying value of credit–sensitive retained interests at period end	$ 288,807	$ 1,523,016	(81%)
Loss Reserves and Liabilities:			
Allowances for credit losses	$ 5,099,305	$ 696,777	632%
Liability for representations and warranties	1,536,347	431,823	256%
Liability for impairment losses related to future draw obligations	637,493	—	N/M
Liability for corporate guarantees	73,988	56,016	32%
Liability for reinsurance claims	585,811	112,350	421%
	$ 7,932,944	$ 1,296,966	512%

(1) The provision for credit losses is comprised of:

	Quarters Ended June 30, 2008	Quarters Ended June 30, 2007
	(in thousands)	
Provision for loan losses before pool mortgage insurance recoveries	$ 2,614,321	$ 368,811
Provision for losses on unfunded commitments	(2,181)	4,463
Increase in estimate of amounts recoverable from pool mortgage insurance	(283,396)	(75,887)
	$ 2,328,744	$ 297,387

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(2)

Excludes both loans held in SPEs where the beneficial interest holder of the securitized asset retains the credit risk relating to the loans and the allowance for loan losses.

(3)

Excludes $3,022.2 million and $1,361.4 million, at June 30, 2008 and 2007, respectively, of loans that we have the option (but not the obligation) to repurchase but have not exercised that option. These loans are required to be included on our balance sheet. Also excluded are nonaccrual loans held for sale that are carried on the consolidated balance sheet at the lower of cost or estimated fair value and government guaranteed loans held for investment, as follows:

	June 30,	
	2008	2007
	(in thousands)	
Loans held for sale	$288,532	$279,824
Government guaranteed loans, held for investment	376,438	350,452
	$664,970	$630,276

The carrying value of the Company's portfolio of loans held for investment was $94.2 billion at June 30, 2008. As previously disclosed by Bank of America, the preliminary purchase price adjustments to such carrying value were estimated to be approximately $8.1 billion.

Liquidity and Capital

During the second half of 2007, our access to capital was severely challenged when the non–agency segments of the secondary mortgage market and the commercial paper, medium–term note and repurchase agreement segments of the public corporate debt markets were severely restricted by illiquidity, particularly for mortgage companies and other financial institutions. These conditions have not abated through the date of this Report.

In response to the disruption in the second half of 2007, we:

- Modified our funding structure to that of a thrift holding company, which has access to stable, non–capital markets based funding, by accelerating the integration of our mortgage banking activities into our bank subsidiary
- Significantly changed our underwriting standards to focus the majority of our loan production on loans that are available for direct sale or securitization into programs sponsored by the government–sponsored agencies
- Entered into an agreement and plan of merger with Bank of America on January 11, 2008 and completed the merger on July 1, 2008.

After being acquired, we sold certain assets to Bank of America for approximately $30.7 billion in demand notes and cash. We used proceeds from the asset sales to repay our unsecured revolving lines of credit and bank loans for approximately $11.5 billion and to increase the capital of our Bank subsidiary by $5.5 billion.

On July 1, 2008, Standard and Poor's Ratings Service (S&P) upgraded its credit rating of CFC and CHL from BB+ to AA, an investment grade rating. S&P also upgraded its credit rating of the Bank from BBB to AA+. The Rating Outlook for all three entities was changed from Credit Watch Developing to Negative.

Critical Accounting Policies

The accounting policies with the greatest impact on our financial condition and results of operations that require the most judgment, and which are most likely to result in materially different amounts being recorded under different conditions or using different assumptions, pertain to our

measurement of provisions and reserves associated with credit risk inherent in our operations; our mortgage loan sale and securitization activities, including valuation of loans pending sale; our investments in MSRs and retained interests and our use of derivatives to manage interest rate risk, including the valuation of interest rate lock commitments. A discussion of the critical accounting policies related to these activities is included in our 2007 Annual Report.

Effective January 1, 2008, we adopted SEC Staff Accounting Bulletin No. 109 ("SAB 109"). SAB 109 supersedes Staff Accounting Bulletin No. 105 ("SAB 105"), Application of Accounting Principles to Loan Commitments. SAB 109 changed the requirements of SAB 105 to require that the expected net future cash flows related to the servicing of a loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The guidance is effective on a prospective basis to derivative loan commitments issued or modified after December 31, 2007. The effect of this guidance on Countrywide is for us to recognize higher estimated fair values of our interest rate lock commitments when the commitments are made, effectively changing the timing of revenue recognition to the time a derivative loan commitment is issued. Before adoption of SAB 109, revenue was recognized upon transfer of the loans in transactions that met the accounting requirements for sale accounting. The effect of adoption of SAB 109 was to increase gain on sale of loans and securities by $216.0 million for the six months ended June 30, 2008. This amount represents the revenue recognized at the time the loan commitment was issued that is included in the value of our interest rate lock commitments or Mortgage Loan Inventory at June 30, 2008.

For loan commitments issued after December 31, 2007, the Company estimates the fair value of an IRLC based on the estimated fair value of the underlying mortgage loan less the commitment price adjusted for the probability that the mortgage loan will fund within the terms of the IRLC. The Company generally estimates the fair value of the underlying loan based on quoted market prices for securities backed by similar types of loans together with estimated servicing value adjusted for the estimated costs and profit margin associated with securitization. The estimated probability of mortgage loan funding is based on the Company's historical experience and is adjusted to reflect the risk of variability in such probability using an option pricing model. If quoted market prices for relevant securities are not available, fair value is estimated based on other relevant factors, including dealer price quotations, prices available for similar securities, and valuation models intended to approximate the amounts that would be received from a third party.

As detailed in Item 7—*Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies* of our 2007 Annual Report, many of our key accounting policies rely on estimates of value. The estimates for those items identified in that section of the 2007 Annual Report all fall in Level 3 of the fair value hierarchy. Accordingly, many of our estimates of the fair value amounts included in our financial statements depend on significant assumptions that are difficult to observe or derive from marketplace data.

Changes in significant assumptions underlying our estimates can have a significant effect on the values we have recorded. Following is an illustration of the effect of a change in key assumptions—

where applicable to the specific instrument types—on our estimates of value of these items as of June 30, 2008:

	Mortgage Loans Held for Sale	Investments in Other Financial Instruments: Trading Securities	Investment Securities	Retained Interests	IRLCs Net	Mortgage Servicing Rights
				(in thousands)		
Assets:						
Level 3 balances at June 30, 2008	$ 1,425,208	$ 1,124,351	$ 13,424,032	$ 1,510,579	$ 106,949	$ 18,402,390
Weighted–average rate (1) or OAS:						
Effect of 20% adverse change	$ (87,192)	$ (57,677)	$ (363,770)	$ (94,008)	—	$ (674,666)
Effect of 20% favorable change	$ 103,168	$ 67,581	$ 416,095	$ 118,548	—	$ 742,010
Weighted–average prepayment speed:						
Effect of 20% adverse change	—	$ (84,870)	$ (229,066)	$ (60,373)	—	$ (1,292,012)
Effect of 20% favorable change	—	$ 96,233	$ 183,265	$ 88,556	—	$ 1,597,226
Weighted–average net lifetime credit losses:						
Effect of 20% adverse change	—	—	—	$ (58,604)	—	$ (180,941)
Effect of 20% favorable change	—	—	—	$ 137,900	—	$ 148,043
Weighted–average funding ratio:						
Effect of 20% adverse change	—	—	—	—	$ (21,390)	—
Effect of 20% favorable change	—	—	—	—	$ 21,390	—

	Asset–backed Secured Financings
Liabilities:	
Level 3 balances at June 30, 2008:	$ 1,212,252
Weighted–average discount rate:	
Effect of 20% adverse change	$ (68,518)
Effect of 20% favorable change	$ 79,446

(1) Includes discount rate or Market Spread.

The sensitivities shown are solely for illustrative purposes and should be used with caution. This information is furnished to provide the reader with a basis for assessing the sensitivity of the values presented to changes in key assumptions. Certain key assumptions are common to several of the financial statement items that are measured at their estimated fair value. While the qualitative nature of the assumption may be the same, the assumptions vary by specific instrument and do not necessarily change at the same rate. A 20% change in an assumption for one of the financial statement items does not necessarily imply that assumption would also change in the same direction or by the same amount for other items. As the figures indicate, changes in fair value based on a given percentage variation in individual assumptions generally cannot be extrapolated. In the preceding table, the effect of a variation in a particular assumption on the fair value of the item is calculated without changing any other assumption. In reality, changes in one factor may coincide with changes in another, which could compound or counteract the sensitivities.

Results of Operations Comparison—Quarters Ended June 30, 2008 and 2007

Detailed Line Item Discussion of Consolidated Revenue and Expense Items

(Loss) Gain on Sale of Loans and Securities

(Loss) gain on sale of loans and securities is summarized below:

	Quarters Ended June 30,					
	2008			2007		
		(Loss) Gain on Sale			(Loss) Gain on Sale	
	Loans Sold	Amount	Margin	Loans Sold	Amount	Margin
			(dollar amounts in thousands)			
Prime Mortgage Loans	$ 56,759,841	$ 773,954	1.36%	$ 109,425,578	$ 1,085,656	0.99%
Subprime Mortgage Loans	—	(64,655)	N/M	5,164,101	187,201	3.63%
Prime Home Equity Loans:						
Initial Sales	4,599	6,131	N/M	1,998,399	50,262	2.52%
Subsequent draws	246,821	6,315	2.56%	1,042,353	22,976	2.20%
	251,420	12,446	4.95%	3,040,752	73,238	2.41%
Commercial real estate	539,922	(24,149)	(4.47%)	2,737,967	28,650	1.05%
Conduit	650,902	2,409	0.37%	7,848,462	82,712	1.05%
	$ 58,202,085	700,005	1.20%	$ 128,216,860	1,457,457	1.14%
Underwriting		3,607			32,862	
Securities trading and other		(162,582)			36,418	
Adjustments to estimated liability for losses on representations		(677,276)			(51,883)	
Other		9,304			18,604	
		$ (126,942)			$ 1,493,458	

Prime Mortgage Loans

Gain on sale of Prime Mortgage Loans decreased in the quarter ended June 30, 2008 compared to the quarter ended June 30, 2007, due primarily to a 48% decrease in the volume of loans sold. This reduction was partially offset by improvement in our gain on sale margins compared to the previous period.

Subprime Mortgage Loans

Loss on sale of Subprime Mortgage Loans increased in the quarter ended June 30, 2008 as compared to the year–ago period primarily due to a discontinuation of subprime lending and sales in late 2007. The loss in the quarter ended June 30, 2008 consisted primarily of valuation adjustments on subprime loans held for sale due to continuing declines in the value of such mortgage loans. These loans consisted primarily of $1.3 billion of loans that have previously been transferred in securitization transactions but which did not qualify as sales in accordance with SFAS 140.

Prime Home Equity Loans

Gain on sale of Prime Home Equity Loans decreased in the quarter ended June 30, 2008 as compared to the year–ago period due primarily to a discontinuation of lending and sales of home equity loans, except for additional draws under existing loan agreements and securitizations.

Commercial Real Estate

During the quarter ended June 30, 2008, commercial real estate loss on sale increased due to continuing illiquidity in the commercial mortgage securitization market along with our discontinuation of commercial real estate lending, and included a net loss on related credit default swaps of $9.2 million.

Conduit and Underwriting Activities

During the quarter ended June 30, 2008, both conduit and underwriting gain on sale decreased compared to the year–ago period as a result of our exit from these activities due in large part to lack of demand in the mortgage marketplace for non–agency securities.

Securities Trading and Other

The negative result for gain on sale arising from securities trading and other activities compared to the quarter ended June 30, 2007, was primarily due to additional write–downs of trading securities at depressed prices.

Provision for Losses on Representations and Warranties

Our losses on representations and warranties arise when such representations and warranties are breached and generally only when a loss results from the breach. We estimate our liability for representations and warranties at the time of sale and update our estimates quarterly. At the time of sale, the liability is a component of the product's gain on sale. Subsequent to sale, adjustments to our liability for representations and warranties are included in provision for losses on representations and warranties, which is included in the income statement as a component of (loss) gain on sale of loans and securities. The expense applicable to our estimate of future representations and warranty claims increased to $755.1 million in the quarter ended June 30, 2008 from $73.4 million in the year–ago period. Of these amounts, $677.3 million and $51.9 million for the current quarter and the year–ago quarter, respectively, were adjustments made subsequent to sale and are included in the provision for losses related to representations and warranties. The increase was primarily driven by increased levels of claims that we are currently experiencing along with our expectations for elevated levels of claims in the near future. The levels of claims is due largely to worsening trends and expectations for delinquencies and home prices and the related increase in the projection of future defaults to which representation and warranty claims relate.

Net Interest (Expense) Income and Provision for Loan Losses

Net interest (expense) income is summarized below:

	Quarters Ended June 30, 2008	Quarters Ended June 30, 2007
	(in thousands)	
Net interest (expense) income:		
Investment loans and securities	$ 585,883	$ 476,257
Loans and securities relating to mortgage banking activities	44,512	147,647
Net interest income on custodial balances	36,159	224,197
Net interest expense relating to loan servicing activities	(135,133)	(249,470)
Securities inventory	74,656	19,915
Other	49,874	109,450
Net interest income	655,951	727,996
Provision for loan losses	(2,330,925)	(292,924)
Net interest (expense) income after provision for loan losses	$(1,674,974)	$ 435,072

The increase in net interest income from the investment loans and securities was attributable to growth in average interest–earning assets partially offset by a decrease in the net interest margin. Average interest–earning assets in the investment loans and securities increased to $110.5 billion during the quarter ended June 30, 2008, an increase of $23.8 billion, or 27%, over the year–ago period. Net interest margin relating to investment loans and securities decreased to 2.11% during the quarter ended June 30, 2008, from 2.17% during the year–ago period primarily as a result of increasing levels of non accrual loans.

The decrease in net interest income from mortgage banking–related loans and securities reflects a sharp decrease in average interest–earning assets resulting from lower mortgage loan production.

Interest income on custodial balances decreased from the year–ago period due to a reduction in the earnings rate along with a reduction in average balances, partially offset by a decrease in interest expense on paid–off loans resulting from a decrease in payoffs. Interest income on custodial balances is reduced by the interest we are required to pass through to security holders on paid–off loans, which was $62.1 million and $113.6 million during the quarters ended June 30, 2008 and 2007, respectively.

Net interest expense related to loan servicing assets decreased due to increased interest income on a larger portfolio of mortgage loans held for investment allocated to servicing activities combined with a reduction in the cost of debt used to finance servicing–related assets partially offset by an increase in our investment in MSRs and other loan servicing–related assets.

The increase in net interest income from the trading securities and securities purchased under agreements to resell inventories is attributable to an increase in the net interest margin from 0.11% during the quarter ended June 30, 2007 to 0.77% during the quarter ended June 30, 2008, partially offset by a 46% decrease in the average inventory of securities held.

The increase in the provision for loan losses was primarily due to increased losses inherent in the loan portfolio arising from continuing economic weakness and declining values of the real estate securing our mortgage loans. Such factors continue to be reflected in our current experience and expectations for levels of mortgage delinquencies, defaults and loss severities.

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Loan Servicing Fees and Other Income from MSRs and Retained Interests

Loan servicing fees and other income from MSRs and retained interests are summarized below:

	Quarters Ended June 30,	
	2008	2007
	(in thousands)	
Servicing fees, net of guarantee fees(1)	$ 1,112,473	$ 1,102,707
Income from retained interests	92,336	123,941
Late charges	97,198	90,137
Prepayment penalties	8,696	70,018
Ancillary fees	27,146	34,452
Total loan servicing fees and income from MSRs and retained interests	$ 1,337,849	$ 1,421,255

(1) Includes contractually specified servicing fees.

The increase in servicing fees, net of guarantee fees, was principally due to a 9% increase in the average servicing portfolio, partially offset by a decrease in the overall annualized net service fee earned from 0.340% of the average portfolio balance during the quarter ended June 30, 2007 to 0.316% during the quarter ended June 30, 2008.

The decrease in income from retained interests was due primarily to a 18% decrease in the average investment in these assets from the quarter ended June 30, 2007 to the current quarter, combined with a reduction in the average yield on such instruments from 16% during the year–ago period to 15% during the current quarter. Income from retained interests excludes any impairment charges or recoveries, which are included in impairment of retained interests in the consolidated statements of operations. These investments include interest–only and principal–only securities, and certain mortgage pass–through and residual securities that arise from the securitization of mortgage loans, primarily Subprime Mortgage and Prime Home Equity Loans.

Realization of Expected Cash Flows from Mortgage Servicing Rights

The change in fair value of MSRs that is included in the statements of operations during the quarters ended June 30, 2008 and 2007 consists of two primary components—a reduction in fair value due to the realization of expected cash flows from the MSRs and a change in fair value resulting from changes in market factors, such as interest rates.

The realization of expected cash flows from MSRs resulted in a value reduction of $667.7 million and $857.1 million during the quarters ended June 30, 2008 and 2007, respectively. This amount declined because of a decrease in the prepayment rate of loans in our MSR portfolio due to a worsening housing market and lesser credit availability in the mortgage market which, in turn, extends the expected life of the existing asset.

Change in Fair Value of Mortgage Servicing Rights

We recorded an increase in the fair value of the MSRs due to changes in market factors in the quarters ended June 30, 2008 and 2007 of $1,896.0 million and $1,177.3 million, respectively, primarily as a result of increasing mortgage rates which decreased expected future prepayments, which in turn increases expected cash flows from our current servicing portfolio.

Recovery (Impairment) of Retained Interests

Recovery (impairment) of retained interests is summarized below:

	Quarters Ended June 30,			
	2008		2007	
	Recovery (Impairment)	Asset Balance at Period End	Recovery (Impairment)	Asset Balance at Period End
	(in thousands)			
Credit–sensitive retained interests	$ (64,351)	$ 288,807	$ (416,673)	$ 1,523,016
Non credit–sensitive retained interests	99,631	1,221,772	148,556	1,212,497
Recovery (impairment) of retained interests	$ 35,280	$ 1,510,579	$ (268,117)	$ 2,735,513

In the quarter ended June 30, 2008, we recognized impairment of credit–sensitive retained interests of $64.4 million, including impairment of $74.5 million related to Subprime and related residual interests partially offset by a recovery of $17.1 million related to subordinated interests on Prime Home Equity securitizations. The recovery on Prime Home Equity securitizations consists of impairment of retained interests of $81.3 million and recovery of previously recorded impairment losses of $98.4 million related to estimated future draw obligations on the securitizations that have entered or are probable to enter rapid amortization status. The impairment charges were primarily the result of the effect of increased estimates for future losses on the loans underlying these securities driven by continued expectations of future declines in the value of the real estate collateral securing our loans and the effect on delinquencies of significant tightening of available credit compared to prior periods. The loss estimate, as measured by gross undiscounted losses embedded in the valuation of subordinated interests as a percentage of the unpaid principal balance of the loans underlying such interests, increased from 11.0% to 15.6% during the quarter ended June 30, 2008.

The recovery of previously recorded impairment losses related to estimated future draw obligations on the securitizations that have entered or are probable to enter rapid amortization status is due to a reduction in projections of future expected funding obligations under rapid amortization. The reduction in estimated future fundings is due primarily to not renewing lines of credit and suspending borrowers' access to existing lines of credit, in accordance with the borrowers' line of credit agreements, when their loans enter a specified delinquency status or when their property values decline below a specified threshold.

In the quarter ended June 30, 2007, we recognized impairment of credit–sensitive retained interests of $416.7 million, including $388.1 million related to subordinated interests on prime home equity securitizations. The impairment charges on these subordinated interests were driven by weakening housing market conditions, which resulted in increased estimates for future losses on the loans underlying these securities. The loss estimate, as measured by undiscounted losses embedded in the valuation of subordinated interests as a percentage of the unpaid principal balance of the loans underlying such interests, increased from 3.1% to 5.2% during the quarter ended June 30, 2007.

In the quarter ended June 30, 2008, recovery in the estimated fair value of the non credit–sensitive retained interests was due to the effect of increasing interest rates on the estimated cash flows relating to interest–only securities, partly offset by the offsetting effects of the change in interest rates on the values of principal–only and prepayment securities. In addition, the value of senior and mezzanine securities that we began retaining as a result of the market disruption during 2007 continued to decline.

During the quarter ended June 30, 2007, recovery of non credit–sensitive retained interests was due primarily to an increase in the value of interest–only securities resulting from an increase in interest rates.

Servicing Hedge Gains/Losses

The Servicing Hedge is designed to supplement the macro hedge and to offset a portion of the interest rate driven change in the value of MSRs and retained interests recorded in the current period. The values of the derivatives and securities that are the primary components of the Servicing Hedge are tied to long–term mortgage, swap and Treasury rates. Overall, these rates increased during the current period. The Servicing Hedge produced a loss of $2,624.3 million, including $519.7 million of time value decay of the options included in the Servicing Hedge (our "hedge cost"). The composition of the Servicing Hedge is a primary driver of hedge cost. In selecting among alternative hedge instruments to meet the desired risk profile, we consider such factors as cost, cash flow requirements and counterparty risk in addition to a particular instrument's effect on our interest rate risk profile.

During the quarter ended June 30, 2007, interest rates increased and as a result, the Servicing Hedge incurred a loss of $1,373.1 million, including $125 million of hedge cost.

Net Insurance Premiums Earned

The $132.4 million increase in net insurance premiums earned was primarily attributable to growth in lender–placed property business.

Other Revenue

Other revenue consists of the following:

	Quarters Ended June 30,	
	2008	2007
	(in thousands)	
Appraisal fees, net	$ 52,608	$ 41,674
Title services	30,480	15,773
Change in cash surrender value of life insurance	9,171	14,898
Credit report fees, net	7,336	18,164
Loss on sale of fixed assets and intangible assets	(19,440)	(2,037)
Other	104,801	83,646
Total other revenue	$184,956	$172,118

Realized Loss on Available for Sale Investment Securities

During the quarter ended June 30, 2008, we recognized other–than temporary impairment totaling $467.8 million in our portfolio of investment securities classified as available–for–sale. This loss was recognized primarily because, based on the loss estimates embedded in the value of certain non–agency securities held in our investment portfolio, we no longer believed that it was reasonably assured that the decline in value would be recovered. This amount compares to a loss totaling $4.9 million in the quarter ended June 30, 2007.

Exhibit 2

Compensation Expenses

Compensation expenses decreased $112.2 million, or 10%, during the quarter ended June 30, 2008 as compared to the year–ago period as summarized below:

	Quarters Ended June 30,	
	2008	2007
	(in thousands)	
Base salaries	$560,143	$ 624,734
Incentive bonus and commissions	273,266	475,941
Payroll taxes and other benefits	180,896	195,214
Deferral of loan origination costs	(17,457)	(186,873)
Total compensation expenses	$996,848	$1,109,016

Our average workforce declined from 58,261 during the quarter ended June 30, 2007 to 50,455 during the quarter ended June 30, 2008. This decline was centered in our mortgage origination operations and reflects the dramatic decline in mortgage loan production which began in the third quarter of 2007. This reduction in headcount, along with reductions in the profitability of the Company's activities upon which incentive compensation expense is based caused a 22% reduction in compensation expenses before deferral of loan origination costs.

Effective January 1, 2008, we adopted SFAS 159 and have elected to account for most of our mortgage loans originated or purchased for sale at their estimated fair value. Because of this election, fees and costs are recorded in earnings as incurred instead of being deferred. Accordingly, the deferral of loan origination costs declined by 91% from the prior period.

Occupancy and Other Office Expenses

Occupancy and other office expenses are summarized below:

	Quarters Ended June 30,	
	2008	2007
	(in thousands)	
Office and equipment rentals	$ 74,885	$ 65,221
Depreciation	53,526	59,177
Utilities	38,348	41,234
Postage and courier service	27,941	27,568
Office supplies	17,047	21,963
Dues and subscriptions	12,552	15,088
Repairs and maintenance	9,572	14,546
Other	15,298	24,220
Total occupancy and other office expenses	$249,169	$269,017

During the quarter ended June 30, 2008, occupancy and other office expenses decreased by 7%, or $19.8 million, reflecting the reductions in our workforce discussed previously in *Compensation Expenses*.

Insurance Claim Expenses

Insurance claim expenses were $366.5 million during the quarter ended June 30, 2008 as compared to $154.8 million during the year–ago period. The increase in insurance claim expenses was primarily the result of a $185.1 million increase in the provision for mortgage reinsurance claims arising from

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increased loss expectations caused by the current elevated delinquencies and defaults inherent in our loan servicing portfolio.

Other Operating Expenses

Other operating expenses are summarized below:

	Quarters Ended June 30,	
	2008	2007
	(in thousands)	
Legal, consulting, accounting and auditing expenses	$101,706	$ 47,261
Operations of foreclosed real estate	79,647	21,769
Losses on servicing–related advances	77,640	22,635
Insurance commission expense	39,216	43,705
Insurance	26,140	17,686
Mortgage insurance	22,567	23,938
Taxes and licenses	22,269	18,146
Software amortization and impairment	19,850	19,561
Travel and entertainment	18,678	27,771
Other	108,012	58,021
Deferral of loan origination costs	(851)	(29,136)
Total other operating expenses	$514,874	$271,357

Losses on servicing–related advances increased $55.0 million due to increases in the level of defaulted loans in the servicing portfolio.

Results of Operations Comparison—Six Months Ended June 30, 2008 and 2007

Gain on Sale of Loans and Securities

Gain on sale of loans and securities is summarized below:

	Six Months Ended June 30,					
	2008			2007		
		Gain on Sale			Gain on Sale	
	Loans Sold	Amount	Margin	Loans Sold	Amount	Margin
	(dollar amounts in thousands)					
Prime Mortgage Loans	$ 117,511,650	$ 1,941,944	1.65%	$ 202,304,717	$ 2,017,227	1.00%
Subprime Mortgage Loans	3,281	(173,161)	N/M	13,054,123	149,386	1.14%
Prime Home Equity Loans:						
Initial Sales	9,184	(22,229)	N/M	8,785,234	193,466	2.20%
Subsequent draws	904,049	20,735	2.29%	2,085,493	50,438	2.42%
	913,233	(1,494)	N/M	10,870,727	243,904	2.24%
Commercial real estate	701,451	7,559	1.08%	4,228,239	66,215	1.57%
Conduit	2,501,383	39,132	1.56%	15,282,847	139,995	0.92%
	$ 121,630,998	1,813,980	1.49%	$ 245,740,653	2,616,727	1.06%
Underwriting		12,886			97,028	
Securities trading and other		(234,518)			67,200	
Hedge allocation		(340,500)			—	
Adjustment to estimated liability for losses on representations and warranties		(1,053,550)			(79,064)	
Other		(35,929)			25,671	
		$ 162,369			$ 2,727,562	

Prime Mortgage Loans

Gain on sale of Prime Mortgage Loans decreased by 4% in the six months ended June 30, 2008 as compared to the six months ended June 30, 2007. The Company's adoption of SAB 109 contributed to the increase in the prime gain on sale in the six months ended June 30, 2008 by $216.0 million. The adoption of this guidance results in revenue being recorded upon initial recognition of derivative interest rate lock commitments. Prior to adoption, revenue was recorded when the loans were sold. In addition, our election to account for the majority of our loans held for sale at estimated fair value effective January 1, 2008 positively impacted prime gain on sale margins. Because of this election, origination costs and fees are recorded in earnings as incurred instead of being deferred, which resulted in increased prime gain on sale margins of approximately $176 million. This amount is offset by higher production expenses. Increased gain on sale margins on Prime Mortgage Loans also contributed to higher gain on sale of Prime Mortgage Loans. These positive factors were partially offset by a 42% decline in the volume of loans sold.

Subprime Mortgage Loans

Loss on sale of Subprime Mortgage Loans increased in the six months ended June 30, 2008 as compared to the year-ago period due primarily to discontinuation of lending and sales of subprime mortgage loans in late 2007. The loss in the six months ended June 30, 2008 consisted primarily of valuation adjustments on subprime loans held for sale due to continuing declines in the value of these

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loans. These loans included $1.3 billion of loans that have previously been securitized but which did not qualify as sales in accordance with SFAS 140 as of June 30, 2008.

Prime Home Equity Loans

We recorded a small net loss on sale of Prime Home Equity Loans in the six months ended June 30, 2008 as compared to a gain on sale for the year–ago period due primarily to discontinuation of lending and sales of Prime Home Equity loans in late 2007.

Commercial Real Estate

During the six months ended June 30, 2008, commercial real estate gain on sale decreased due to continuing illiquidity in the commercial mortgage securitization market along with our discontinuation of commercial real estate lending and included $24.7 million in gains on credit default swaps.

Conduit and Underwriting Activities

During the six months ended June 30, 2008, both conduit and underwriting gain on sale decreased compared to the year–ago period as a result of our exit from these activities due, in part, to lack of demand in the mortgage marketplace for non–agency securities.

Securities Trading and Other

The negative results for gain on sale arising from securities trading and other activities compared to the six months ended June 30, 2007, was primarily due to additional write–downs of trading securities at depressed prices.

Hedge Allocation

As discussed in Note 6—*Derivative Financial Instruments*, during the six months ended June 30, 2008 we managed in aggregate the risk of Market Spread changes in value of our mortgage banking assets, while maintaining separate portfolios of financial instruments to manage the interest rate risk inherent in our production and servicing assets. Accordingly, changes in the value of mortgage banking assets and the related hedge instruments (collectively the "Position") arising from changes in Market Spreads were allocated between those arising from loan production activities and those arising from loan servicing activities. In the six months ended June 30, 2008, Market Spread declines in the value of the Loan Production Sector Position of $340.5 million were allocated to the Loan Servicing Sector.

Provision for Losses Related to Representations and Warranties

The expense applicable to our estimate of future representations and warranty claims increased to $1,183.3 million in the six months ended June 30, 2008 from $90.4 million in the year–ago period. Adjustments to the estimate made subsequent to sale during the current period were $1,053.6 million, and are included in the adjustment to estimated liability for losses on representations and warranties line in the table above. The increase was primarily driven by increased levels of claims that we are currently experiencing along with our expectations for elevated levels of claims in the near future. The level of claims is due largely to worsening trends and expectations for delinquencies and home prices and the related increase in the projection of future defaults to which representation and warranty claims are correlated.

Net Interest (Expense) Income and Provision for Loan Losses

Net interest (expense) income is summarized below:

	Six Months Ended June 30,	
	2008	2007
	(in thousands)	
Net interest (expense) income:		
Investment loans and securities	$ 1,220,459	$ 987,010
Loans and securities relating to mortgage banking activities	81,572	258,030
Net interest income on custodial balances	104,757	428,017
Net interest expense relating to loan servicing activities	(263,369)	(477,994)
Trading securities inventory	136,648	44,395
Other	107,204	219,475
Net interest income	1,387,271	1,458,933
Provision for loan losses	(3,832,277)	(444,886)
Net interest (expense) income after provision for loan losses	$(2,445,006)	$1,014,047

The increase in net interest income from investment loans and securities was attributable to growth in average interest–earning assets partially offset by a decrease in the net interest margin. Average investment loans and securities assets increased to $111.5 billion during the six months ended June 30, 2008, an increase of $26.6 billion, or 31%, over the year–ago period. Net interest margin attributable to investment loans and securities declined to 2.17% during the six months ended June 30, 2008, from 2.29% during the year–ago period primarily as a result of increasing levels of non accrual loans.

The decrease in net interest income from mortgage banking–related loans and securities reflects a decrease in the balance of average interest–earning assets resulting from lower mortgage loan production, partially offset by an increase in net interest margin from the year–ago period. The mortgage banking–related loan and securities inventory is financed in part with borrowings tied to short–term indices. During the current period, the difference between long–term and short–term interest rates was more favorable than in the year–ago period, causing the increase in net interest margin.

Interest income on custodial balances decreased from the year–ago period due to a reduction in the earnings rate along with a reduction in average balances, partially offset by a decrease in interest expense on paid–off loans resulting from a decrease in payoffs. Interest income on custodial balances is reduced by the interest we are required to pass through to security holders on paid–off loans, which was $139.4 million and $202.9 million during the six months ended June 30, 2008 and 2007, respectively.

Net interest expense related to loan servicing activities decreased primarily due to increased interest income on a larger mortgage loan investment portfolio resulting from transfers of mortgage loans held for sale to held for investment and increased holdings of repurchased loans.

The increase in net interest income from the trading securities and securities purchased under agreements to resell inventory is attributable to an increase in the net interest margin from 0.12% during the six months ended June 30, 2007 to 0.69% during the six months ended June 30, 2008, partially offset by a 44% decrease in the average inventory of securities held. During the current period the yield curve steepened, which resulted in a shift in trading revenues from gain on sale to interest income, which caused the increase in the net interest margin earned on the securities portfolio.

The increase in the provision for loan losses was primarily due to increased losses inherent in the loan portfolio, resulting from increased levels of mortgage delinquencies, defaults and loss severities, as well as downward revisions in expectations of changes in home prices.

Loan Servicing Fees and Other Income from MSRs and Retained Interests

Loan servicing fees and other income from MSRs and retained interests are summarized below:

	Six Months Ended June 30,	
	2008	2007
	(in thousands)	
Servicing fees, net of guarantee fees(1)	$ 2,263,333	$ 2,141,350
Income from retained interests	191,279	272,263
Late charges	204,373	180,410
Prepayment penalties	23,740	148,814
Ancillary fees	61,533	65,707
Total loan servicing fees and income from MSRs and retained interests	$ 2,744,258	$ 2,808,544

(1) Includes contractually specified servicing fees.

The increase in servicing fees, net of guarantee fees, was principally due to a 11% increase in the average servicing portfolio, partially offset by a decrease in the overall annualized net service fee earned from 0.338% of the average portfolio balance during the six months ended June 30, 2007 to 0.322% during the six months ended June 30, 2008.

The decrease in income from retained interests was due primarily to a 18% decrease in the average investment in these assets from the six months ended June 30, 2007 to the current period, combined with a reduction in the average yield on such instruments from 17% during the year-ago period to 15% during the current period. Income from retained interests excludes any impairment charges or recoveries, which are included in impairment of retained interests in the consolidated statements of operations.

Realization of Expected Cash Flows from Mortgage Servicing Rights

The realization of expected cash flows from MSRs resulted in a value reduction of $1,421.3 million and $1,657.0 million during the six months ended June 30, 2008 and 2007, respectively. This amount declined because of a decrease in the prepayment rate of loans in our MSR portfolio due to a worsening housing market and lesser credit availability in the mortgage market, which in turn, extends the expected life of the existing asset.

Change in Fair Value of Mortgage Servicing Rights

We recorded an increase in the fair value of the MSRs from changes in market factors in the six months ended June 30, 2008 and 2007, of $435.3 million, and $1,231.5 million, respectively, primarily as a result of increasing mortgage rates, which increased expected future cash flows from our current servicing portfolio.

(Impairment) Recovery of Retained Interests

(Impairment) recovery of retained interests is summarized below:

	Six Months Ended June 30,			
	2008		2007	
	Impairment	Asset Balance at Period End	Impairment	Asset Balance at Period End
	(in thousands)			
Credit–sensitive retained interests	$ (505,638)	$ 288,807	$ (782,226)	$1,523,016
Non credit–sensitive retained interests	(200,102)	1,221,772	84,508	1,212,497
Impairment of retained interests	$ (705,740)	$1,510,579	$ (697,718)	$2,735,513

In the six months ended June 30, 2008, we recognized impairment of credit–sensitive retained interests of $505.6 million, including $330.0 million related to subordinated interests on Prime Home Equity securitizations and $141.0 million related to Subprime and related residual interests. The impairment on Prime Home Equity securitizations consists of impairment of retained interests of $274.0 million and impairment losses of $56.0 million related to estimated future draw obligations on the securitizations that have entered or are probable to enter rapid amortization status. These impairment charges were primarily the result of the effect of increased estimates for future losses on the loans underlying the credit sensitive retained interests driven by weakening housing market conditions and significant tightening of available credit. The loss estimate, as measured by gross undiscounted losses embedded in the valuation of subordinated interests as a percentage of the unpaid principal balance of the loans underlying such interests, increased from 11.0% to 15.6% during the six months ended June 30, 2008.

In the six months ended June 30, 2007, impairment of credit–sensitive subordinated and residual interests retained in prime home equity and subprime securitizations was due to increased estimates for future losses on the loans underlying these securities as well as to the effect of increased market yield requirements for the subprime securities.

In the six months ended June 30, 2008, impairment of the non credit–sensitive retained interests was related primarily to senior and mezzanine securities that we began retaining as a result of the market disruption during 2007 resulting from higher investor yield requirements for such securities partially offset by an increase in the value of interest–only securities caused by decreased prepayment speeds as a result of increasing mortgage interest rates.

During the six months ended June 30, 2007, recovery of non credit–sensitive retained interests was due primarily to an increase in the value of interest–only securities.

Servicing Hedge Gains/Losses

The values of the derivatives and securities that are the primary components of the Servicing Hedge are tied to long–term mortgage, swap and Treasury rates. Overall, these rates decreased for much of the period and volatility of these rates increased during the six months ended June 30, 2008 and as a result, the Servicing Hedge produced a loss of $619.9 million, including $943.1 million of hedge cost.

During the six months ended June 30, 2007, rates increased. In addition, we supplemented the Servicing Hedge with credit default swaps to moderate the negative impact on earnings caused by credit spread–driven declines in fair value of our retained interests during the early part of 2007. During this period, credit spreads widened, resulting in a gain related to the credit default swaps.

During the six months ended June 30, 2007, the Servicing Hedge incurred a loss of $1,486.8 million, including $238.9 million of hedge cost and a $57.2 million gain related to credit default swaps.

Net Insurance Premiums Earned

The $287.0 million increase in net insurance premiums earned was primarily attributable to growth in lender–placed business.

Other Revenue

Other revenue consists of the following:

	Six Months Ended June 30,	
	2008	2007
	(in thousands)	
Appraisal fees, net	$105,746	$ 81,809
Title services	51,959	30,126
Credit report fees, net	19,590	36,302
Gain (loss) on sale of fixed assets and intangible assets	10,744	(4,777)
Change in cash surrender value of life insurance	1,017	19,688
Other	235,281	168,236
Total other revenue	$424,337	$331,384

Realized Loss on Available for Sale Investment Securities

During the six months ended June 30, 2008, we recognized other–than temporary impairment totaling $491.9 million in our portfolio of investment securities classified as available–for–sale. This loss was recognized primarily because, based on the loss estimates embedded in the value of certain non–agency securities held in our investment portfolio, we no longer believed that it was reasonably assured that the decline in value would be recovered. This amount compares to a loss totaling $3.9 million during the six months ended June 30, 2007.

Compensation Expenses

Compensation expenses decreased $133.6 million, or 6%, during the six months ended June 30, 2008 as compared to the year–ago period as summarized below:

	Six Months Ended June 30,	
	2008	2007
	(in thousands)	
Base salaries	$1,119,157	$1,198,486
Incentive bonus and commissions	607,498	922,884
Payroll taxes and other benefits(1)	365,995	419,189
Deferral of loan origination costs	(41,817)	(356,135)
Total compensation expenses	$2,050,833	$2,184,424

(1) Includes restructuring charges of $3.3 million during the six months ended June 30, 2008.

Our average workforce declined from 56,856 during the six months ended June 30, 2007 to 50,386 for the six months ended June 30, 2008. The reduction was centered in our mortgage origination operations and reflects the dramatic decline of the mortgage markets which began in the third quarter

of 2007. This reduction in headcount, along with reductions in the profitability of the Company's activities, upon which incentive compensation is based caused an 18% reduction in compensation expenses before deferral of loan origination costs.

Effective January 1, 2008, we adopted SFAS 159 and have elected to account for most of our mortgage loans originated or purchased for sale at their estimated fair value. Because of this election, fees and costs are recorded in earnings as incurred instead of being deferred. Accordingly, the deferral of loan origination costs declined by 88% from the prior period.

Occupancy and Other Office Expenses

Occupancy and other office expenses are summarized below:

	Six Months Ended June 30,	
	2008	2007
	(in thousands)	
Office and equipment rentals	$131,929	$131,619
Depreciation	109,509	116,488
Utilities	76,575	81,847
Postage and courier service	54,746	52,719
Office supplies	35,735	41,912
Dues and subscriptions	25,488	30,188
Repairs and maintenance	21,304	30,850
Other(1)	36,662	47,607
Total occupancy and other office expenses	$491,948	$533,230

(1) Includes restructuring charges of $10.6 million during the six months ended June 30, 2008.

During the six months ended June 30, 2008, occupancy and other office expenses decreased by 8%, or $41.3 million, reflecting the reductions in our workforce discussed in *Compensation Expenses*, preceding.

Insurance Claim Expenses

Insurance claim expenses were $722.1 million during the six months ended June 30, 2008 as compared to $212.1 million during the year–ago period. The increase in insurance claim expenses was primarily the result of a $480.9 million increase in comparison to the year–ago period in the provision for mortgage reinsurance claims arising from an increase in the projection for future claims payments caused by a worsening housing market and resulting higher actual and projected default rates. The year–ago period included a $74.0 million reversal of the liability for claims losses related to the 2003 books of business, on which negligible remaining loss exposure was deemed to exist in the six months ended June 30, 2007.

Other Operating Expenses

Other operating expenses are summarized below:

	Six Months Ended June 30,	
	2008	2007
	(in thousands)	
Legal, consulting, accounting and auditing expenses	$154,940	$ 85,786
Operations of foreclosed real estate	146,272	35,656
Losses on servicing–related advances	136,641	32,388
Insurance commission expense	90,919	93,577
Insurance	52,437	34,602
Mortgage insurance	49,794	43,332
Taxes and licenses	42,018	35,508
Software amortization and impairment	39,228	36,800
Travel and entertainment	34,850	48,857
Other	216,896	118,350
Deferral of loan origination costs	(3,695)	(55,461)
Total other operating expenses	$960,300	$509,395

Losses on servicing–related advances increased $104.3 million due to increases in the level of defaulted loans in the servicing portfolio.

Liquidity and Capital Resources

Our short–term financing needs arise primarily from our holding of mortgage loans pending sale, the trading activities of our broker–dealer and our warehouse lending business. Our long–term financing needs arise primarily from our investments in our mortgage loan portfolio, MSRs and retained interests and the financial instruments acquired to manage the interest rate risk associated with those investments. The structure and mix of our debt and equity capital are driven by our strategic objectives and those of our parent, regulatory and credit rating agency requirements and capital markets conditions. These factors affect the type of financing we are able to obtain and the size of our operations.

Our primary sources of debt include deposits taken by our Bank, FHLB advances, the public corporate debt markets, unsecured bank lines and loans, repurchase agreements and the secondary mortgage market. Our primary source of equity capital is retained earnings. From time to time, we have issued common or preferred stock, subordinated debt or other securities that receive equity–like treatment by the credit rating agencies as a means of increasing our capital base and supporting our operations. To this end, in the third quarter of 2007 we issued 20,000 shares of 7.25% Series B non–voting convertible preferred stock for an aggregate price of $2.0 billion. The preferred stock ranked senior to our common stock with respect to payment of dividends and distribution upon liquidation. The Series B non–voting convertible preferred stock was cancelled on July 2, 2008, upon completion of the acquisition of Countrywide by Bank of America. We also have $2.2 billion outstanding in junior subordinated debentures that receive varying degrees of "equity treatment" from rating agencies, bank lenders and regulators.

In response to the disruptions in the secondary mortgage markets, we have evolved our funding structure such that it more closely resembles that of a thrift holding company rather than that of a finance company with a banking subsidiary.

During the six months ended June 30, 2008, Standard & Poor's, Moody's Investor Services and Fitch took negative ratings actions on Countrywide. As a result, certain of our debt ratings dropped

Exhibit 2
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below investment grade. On July 1, 2008, following the announcement that Bank of America had completed their acquisition of Countrywide, Standard and Poor's Ratings Service (S&P) upgraded its rating of CFC and CHL from BB+ to AA, an investment grade rating. S&P also upgraded its rating of the Bank from BBB to AA+. The Rating Outlook for all three entities was changed from Credit Watch Developing to Negative. On July 1, 2008, Moody's upgraded its rating of CFC and CHL from Baa3 to Aa2. Moody's also upgraded its rating of the Bank from Baa1 to Aaa. Our Fitch rating remains unchanged.

Following are our credit ratings as determined by the nationally recognized statistical rating organizations ("credit rating agencies") as of July 1, 2008:

	Countrywide Financial Corporation			Countrywide Home Loans			Countrywide Bank		
Credit Rating Agency	**Short–Term**	**Long–Term**	**Rating Outlook**	**Short–Term**	**Long–Term**	**Rating Outlook**	**Short–Term**	**Long–Term**	**Rating Outlook**
Standard & Poor's	A–1+	AA	Negative	A–1+	AA	Negative	A–1+	AA+	Negative
Moody's Investors Service	P1	Aa2	Negative	P1	Aa2	Negative	P1	Aaa	Negative
Fitch	F3	BBB–	Rating Watch Evolving	F3	BBB–	Rating Watch Evolving	F3	BBB–	Rating Watch Evolving

As noted in the preceding paragraphs, during the period of 2008 leading up to the acquisition of Countrywide by Bank of America, the rating agencies took negative actions on our debt ratings. These actions, along with the effect of developing perceptions in the media and financial marketplace regarding our prospects, affected our ability to retain and obtain financing and make securities and derivatives transactions with other institutions.

During the second quarter:

- As a result of earlier rating action on CFC and CHL's debt, we terminated our $10.4 billion secured revolving line of credit (Park Monaco)
- The MBS Gestation conduit ($5 billion of committed liquidity available to CHL) matured and was not renewed
- A $2.5 billion committed repurchase facility available to CHL and the Bank matured and was not renewed
- The FHLB decreased its advance rates and increased its required level of over–collateralization for advances, decreasing available FHLB borrowing capacity available to us
- CFC accessed two new sources of funding during the quarter—the Term Secured Lending Facility and the Primary Dealer Credit Facility—both of which were established by the Federal Reserve to provide increased liquidity to the financial markets. These programs were available to the Bank and CSC during the quarter. However, amounts borrowed by CSC were repaid on July 2, 2008, and these facilities are no longer available to CSC. The facilities remain available to the Bank.

Because of these developments, CFC's available committed liquidity declined by $18.1 billion during the second quarter of 2008.

Following the acquisition by Bank of America of Countrywide, we sold or assigned certain assets to various other Bank of America subsidiaries in exchange for demand notes and cash. These transactions included:

- Sale of all of the partnership interests in Countrywide Home Loans Servicing, LP for approximately $19.7 billion, (Servicing LP's primary assets were approximately $15.3 billion of MSRs and $4.4 billion of reimbursable servicing advances)
- Sale of certain loans held by CHL and Countrywide Commercial Real Estate for approximately $9.5 billion
- Assignment of our position in a portfolio of derivative instruments held by us for approximately $1.5 billion
- Sale of certain securities held by CSC for approximately $0.1 billion.

Proceeds from these transactions were used to terminate and repay our unsecured revolving lines of credit and bank loans with maturities through 2011 for approximately $11.5 billion and to increase the capital of our Bank subsidiary by $5.5 billion. Repayment of the lines and bank loans upon completion of Bank of America's acquisition of Countrywide was required because the borrowing agreements did not allow for continued borrowings in the event of a change in control of Countrywide.

Countrywide Bank is regulated by the Office of Thrift Supervision ("OTS") and is therefore subject to OTS capital requirements. At June 30, 2008, the Bank's regulatory capital ratios and amounts and minimum required capital ratios for the Bank to maintain a "well capitalized" status are as follows based both on its actual balances and proforma balances giving effect to the $5.5 billion capital contribution made by Bank of America on July 2, 2008:

	Minimum Required(1)	Actual		Proforma(2)	
		Ratio	Amount	Ratio	Amount
		(dollar amounts in thousands)			
Tier 1 Capital	5.0%	6.9%	$8,071,716	11.1%	$13,601,716
Risk–Based Capital:					
Tier 1	6.0%	11.1%	$8,071,716	18.7%	$13,601,716
Total	10.0%	12.4%	$9,016,959	20.0%	$14,545,788

(1) Minimum required to qualify as "well capitalized."

(2) The proforma capital ratios reflect the cash contributed to the Bank. These ratios will decrease as we reinvest the proceeds of the capital contribution into interest earning assets with higher risk weightings.

Countrywide Bank is required by OTS regulations to maintain tangible capital of at least 1.5% of assets. However, the Bank is also required to maintain a tangible equity ratio of at least 2% to avoid being classified as "critically undercapitalized." Critically undercapitalized institutions are subject to the prompt corrective action provisions of the Financial Institution Reform Recovery and Enforcement Act of 1989. The Bank's tangible capital ratio was 6.9% and 8.0% at June 30, 2008 and December 31, 2007, respectively.

The OTS has prescribed that the Company and its affiliates are not authorized to receive, and the Bank is not authorized to pay the Company or its affiliates, capital distributions without receipt of prior written OTS non–objection.

Exhibit 2